

**CITY OF CLUTE**  
**CLUTE, TEXAS**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED**  
**SEPTEMBER 30, 2017**

**KENNEMER, MASTERS & LUNSFORD, LLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**  
**8 WEST WAY COURT**  
**LAKE JACKSON, TEXAS 77566**

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# CITY OF CLUTE

Clute, Texas

*Annual Financial Report*  
For the Year Ended September 30, 2017

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## **FINANCIAL SECTION**

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# Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of City Council  
City of Clute  
Clute, Texas

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clute (the "City") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Clute, as of September 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the pension schedules on pages 10 through 23 and pages 94 through 100, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Kennemer, Masters & Hunsford, LLC*

Lake Jackson, Texas  
January 23, 2018

## **CITY OF CLUTE, TEXAS**

### *Management's Discussion and Analysis For the Year Ended September 30, 2017*

As management of the City of Clute (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

#### **Financial Highlights**

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$ 55,549,947 (net position). Of this amount, \$ 7,325,809 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation.
- The City's total net position increased in the amount of \$ 3,712,672.
- As of the close of the current fiscal year, the City of Clute's governmental funds reported combined ending fund balances of \$ 17,194,753. 0.8% of this total amount, \$ 150,000 (unassigned fund balance) is available for use within the City's fund designation.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 150,000 or 1.2% of the total general fund expenditures.

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Clute's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

## CITY OF CLUTE, TEXAS

### *Management's Discussion and Analysis For the Year Ended September 30, 2017*

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The *governmental activities* of the City include general government and administration, public safety, public sanitation, streets and drainage, and cultural and recreation. The *business-type activities* of the City include water and sewer operations.

The government-wide financial statements can be found on pages 27 through 29 of this report.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- **Governmental Funds.** *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General fund, Streets, Drainage and Sidewalks special revenue fund, and the Economic Development Corporation special revenue fund; all of which are considered to be major funds. Data from the other four funds are combined into a single, aggregated presentation. The governmental fund financial statements can be found on pages 30 through 36 of this report. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements on pages 103 through 104 of this report.

## CITY OF CLUTE, TEXAS

### *Management's Discussion and Analysis For the Year Ended September 30, 2017*

- **Proprietary Funds.** The City maintains one category of *proprietary funds-Enterprise Funds*. The *enterprise fund* is to report the same functions presented as business-type activities in government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 38 through 43 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 45 through 92 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 94 through 100 of this report.

The statement referred to earlier in connection with the non-major governmental funds is immediately following the required supplementary information. The nonmajor governmental fund statements and schedules can be found on pages 103 through 123 of this report.

#### **Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. In the case of the City of Clute, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 55,560,912 as of September 30, 2017.

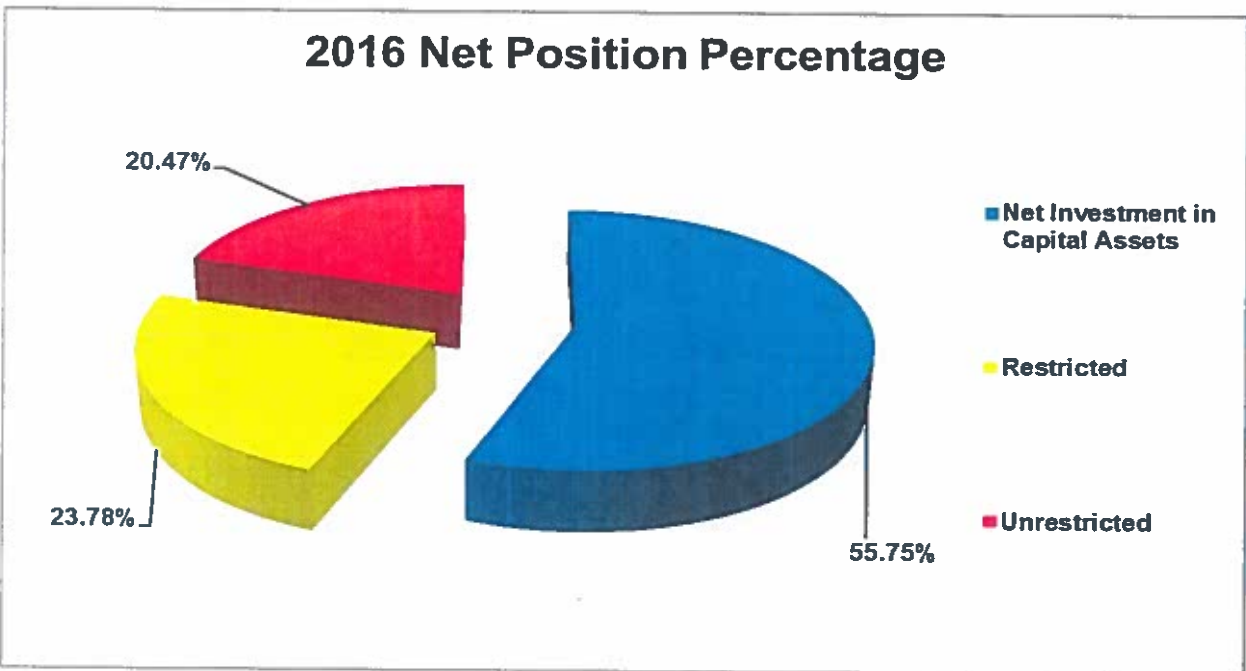
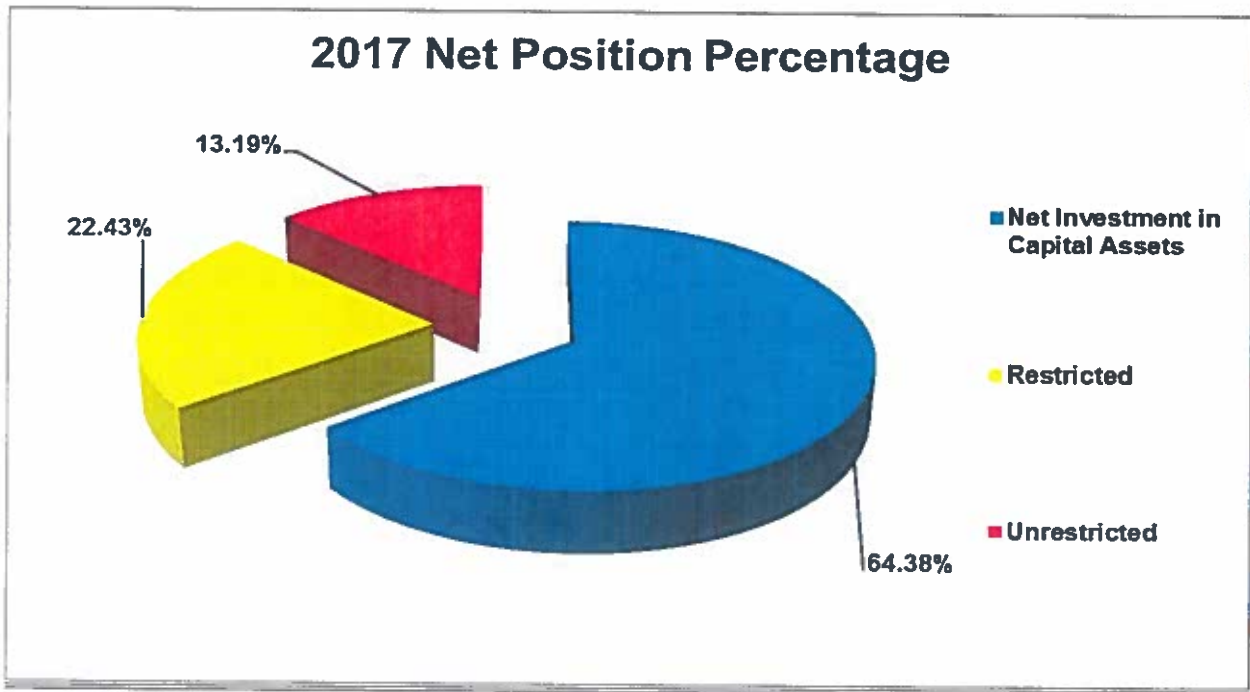
A large portion of the City's net position of \$ 35,761,475 (64.38%) reflects its investments in capital assets (e.g., land, buildings, improvements, infrastructure, equipment, machinery, construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position of \$ 12,462,663 (22.43%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position of \$ 7,325,809 (13.19%) may be used to meet the government's ongoing obligations to citizens and creditors.

**CITY OF CLUTE, TEXAS***Management's Discussion and Analysis  
For the Year Ended September 30, 2017***CITY OF CLUTE'S NET POSITION**

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30		September 30,	
	2017	2016	2017	2016	2017	2016
<b>ASSETS</b>						
Current and other assets	\$ 22,122,191	\$ 25,414,531	\$ 3,247,241	\$ 3,774,917	\$ 25,369,432	\$ 29,189,448
Capital assets	<u>28,572,060</u>	<u>23,860,813</u>	<u>20,970,204</u>	<u>19,651,870</u>	<u>49,542,264</u>	<u>43,512,683</u>
Total assets	<u>50,694,251</u>	<u>49,275,344</u>	<u>24,217,445</u>	<u>23,426,787</u>	<u>74,911,696</u>	<u>72,702,131</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>						
Deferred outflows of resources	<u>1,209,601</u>	<u>1,476,225</u>	<u>139,918</u>	<u>98,150</u>	<u>1,349,519</u>	<u>1,574,375</u>
Total deferred outflows of resources	<u>1,209,601</u>	<u>1,476,225</u>	<u>139,918</u>	<u>98,150</u>	<u>1,349,519</u>	<u>1,574,375</u>
<b>LIABILITIES</b>						
Current and other liabilities	1,039,811	958,104	591,153	1,312,572	1,630,964	2,270,676
Long-term liabilities	<u>12,100,679</u>	<u>12,880,107</u>	<u>6,579,025</u>	<u>6,842,175</u>	<u>18,679,704</u>	<u>19,722,282</u>
Total liabilities	<u>13,140,490</u>	<u>13,838,211</u>	<u>7,170,178</u>	<u>8,154,747</u>	<u>20,310,668</u>	<u>21,992,985</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Deferred inflows of resources	<u>375,155</u>	<u>417,500</u>	<u>25,445</u>	<u>28,773</u>	<u>400,600</u>	<u>446,273</u>
Total deferred inflows of resources	<u>375,155</u>	<u>417,500</u>	<u>25,445</u>	<u>28,773</u>	<u>400,600</u>	<u>446,273</u>
<b>NET POSITION</b>						
Net investment in capital assets	21,271,211	15,968,255	14,490,264	12,932,954	35,761,475	28,901,209
Restricted	12,462,663	12,324,358			12,462,663	12,324,358
Unrestricted	<u>4,654,333</u>	<u>8,203,245</u>	<u>2,671,476</u>	<u>2,408,463</u>	<u>7,325,809</u>	<u>10,611,708</u>
Total net position	<u>\$ 38,388,207</u>	<u>\$ 36,495,858</u>	<u>\$ 17,161,740</u>	<u>\$ 15,341,417</u>	<u>\$ 55,549,947</u>	<u>\$ 51,837,275</u>

**CITY OF CLUTE, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2017*



As of September 30, 2017, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate categories- governmental and business-type activities.

**Analysis of the City's Operations.** The following table provides a summary of the City's operations for the year ended September 30, 2017. Governmental activities increased the City of Clute's net position by \$ 1,892,349 and business-type activities increased the City's net position by \$ 1,820,323.

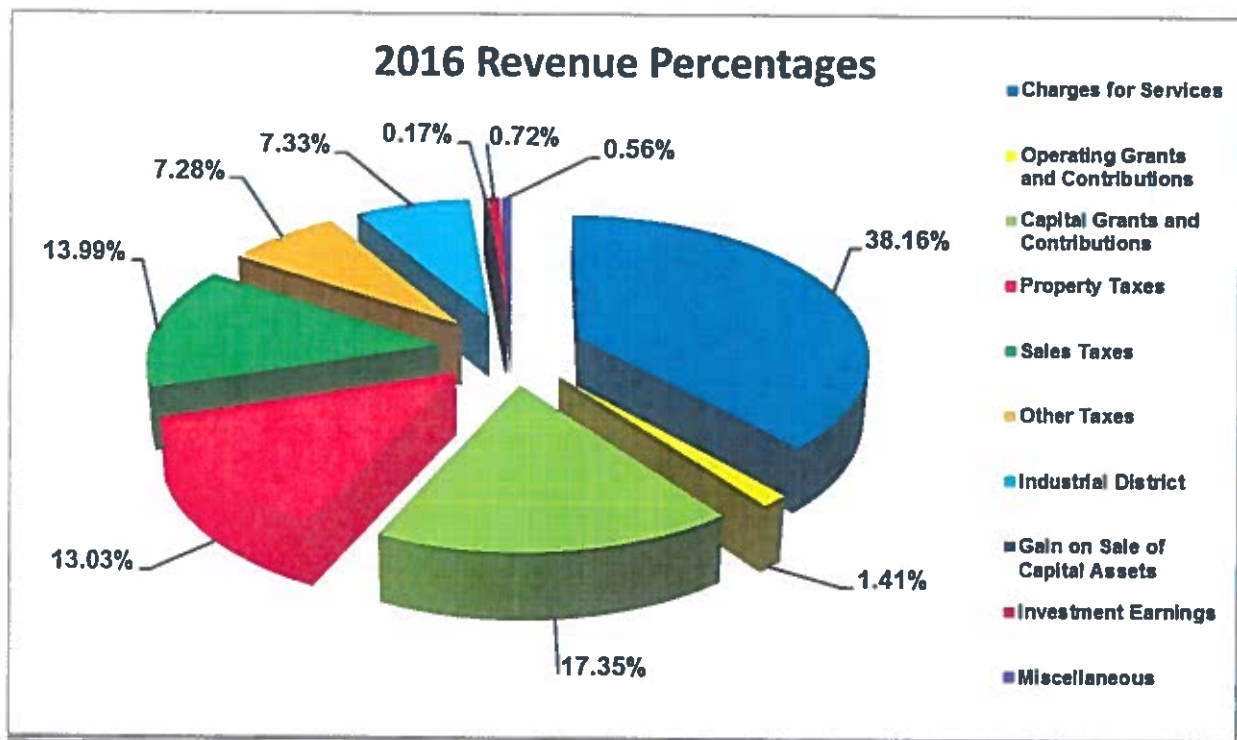
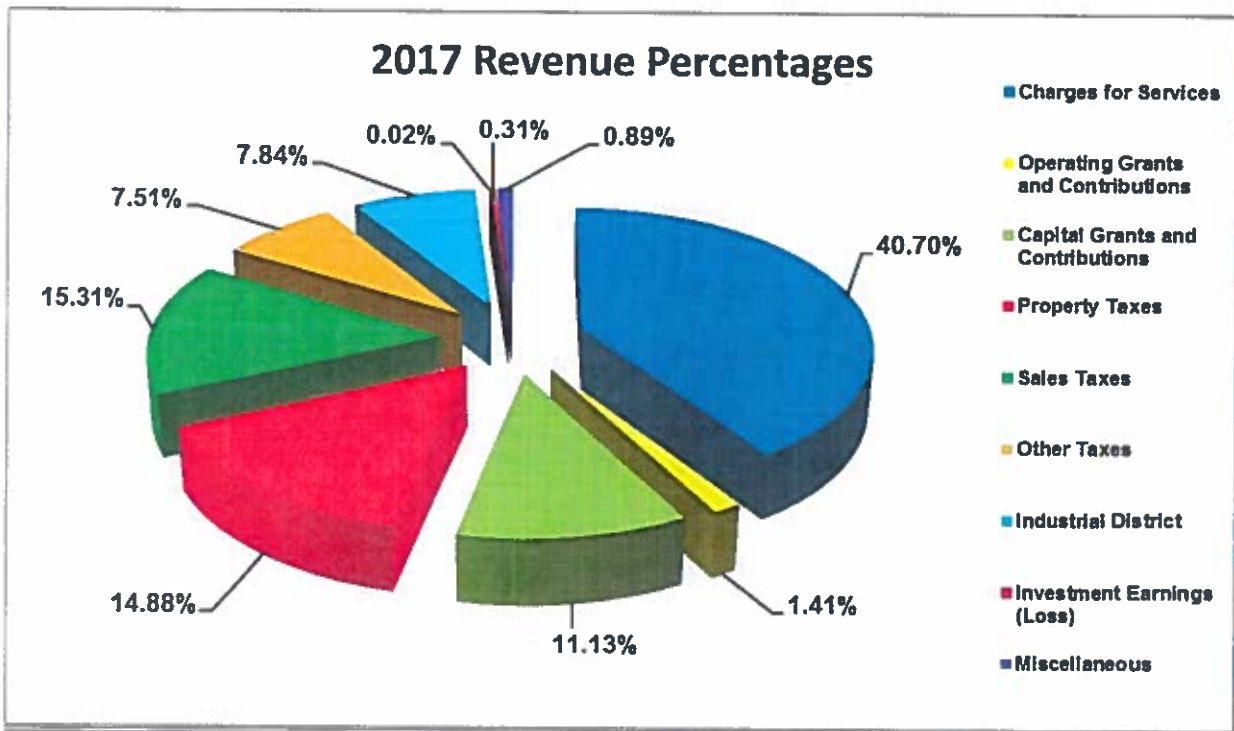
# CITY OF CLUTE, TEXAS

## Management's Discussion and Analysis For the Year Ended September 30, 2017

### CITY OF CLUTE'S CHANGES IN NET POSITION

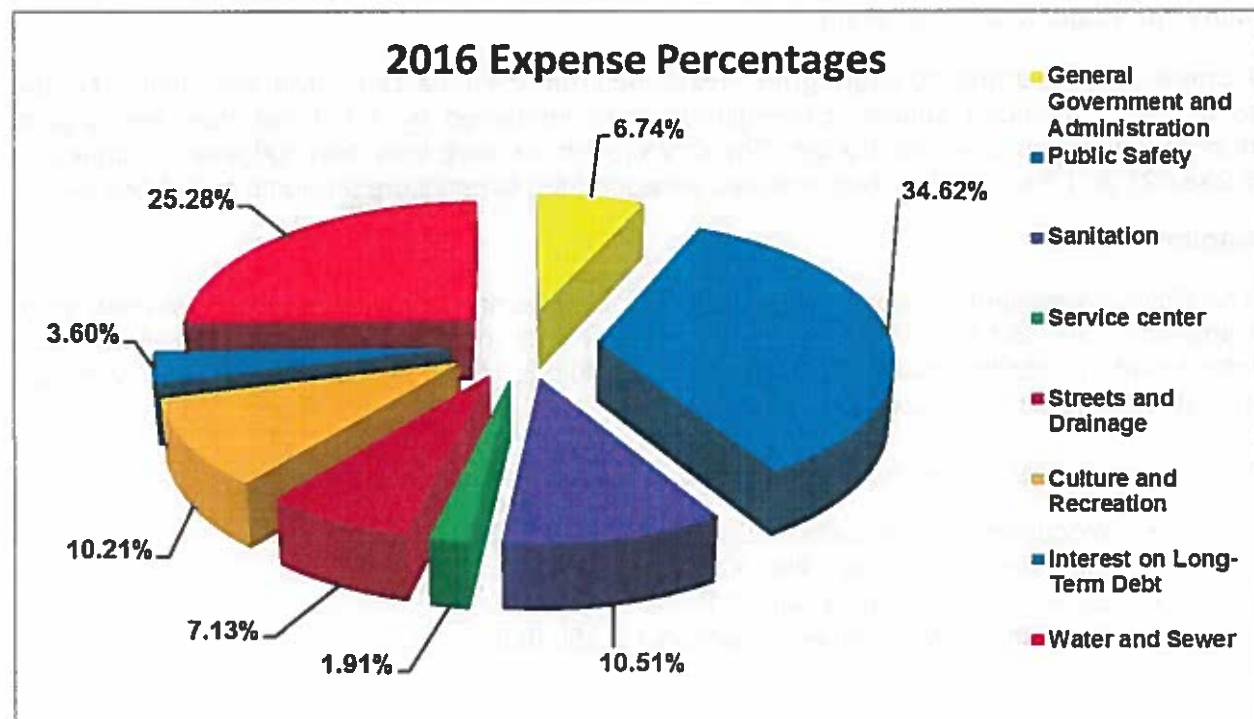
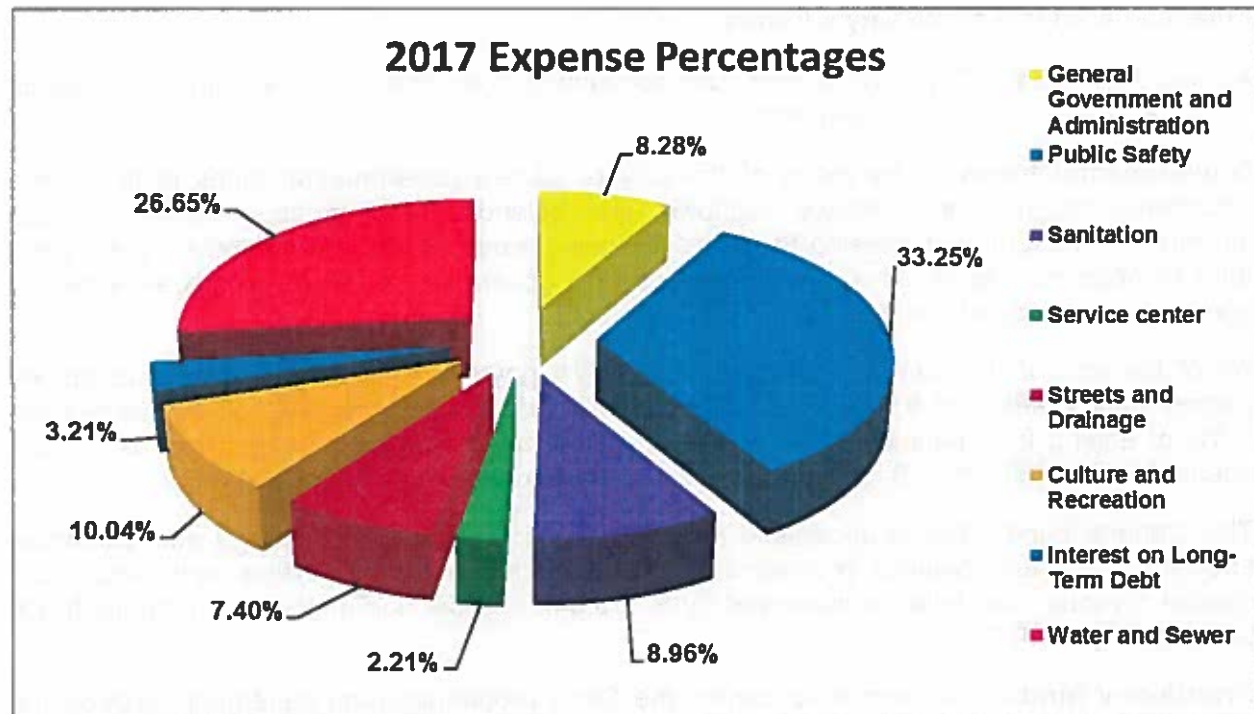
	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charges for services	\$ 3,000,419	\$ 3,136,425	\$ 4,787,385	\$ 4,530,555	\$ 7,787,804	\$ 7,666,980
Operating grants and contributions	270,780	282,984			270,780	282,984
Capital grants and contributions	620,185	2,749,638	1,509,913	736,955	2,130,098	3,486,593
General Revenues:						
Taxes:						
Property taxes	2,846,908	2,618,335			2,846,908	2,618,335
Sales tax	2,930,363	2,810,032			2,930,363	2,810,032
Other taxes	1,437,454	1,462,835			1,437,454	1,462,835
Industrial district	1,499,898	1,473,528			1,499,898	1,473,528
Gain on disposition of capital assets	644	31,441	2,268	2,000	2,912	33,441
Investment earnings	51,868	141,743	7,427	3,490	59,295	145,233
Miscellaneous	170,243	112,816			170,243	112,816
Total revenues	<u>12,828,762</u>	<u>14,819,777</u>	<u>6,306,993</u>	<u>5,273,000</u>	<u>19,135,755</u>	<u>20,092,777</u>
Expenses:						
General government and administration	1,276,253	997,522			1,276,253	997,522
Public safety	5,128,616	5,121,306			5,128,616	5,121,306
Sanitation	1,381,973	1,554,553			1,381,973	1,554,553
Service center	341,381	282,290			341,381	282,290
Streets and drainage	1,141,887	1,055,158			1,141,887	1,055,158
Culture and recreation	1,547,758	1,509,868			1,547,758	1,509,868
Interest on long-term debt	229,022	292,369	266,488	240,782	495,510	533,151
Water and sewer			4,109,705	3,740,126	4,109,705	3,740,126
Total expenses	<u>11,046,890</u>	<u>10,813,066</u>	<u>4,376,193</u>	<u>3,980,908</u>	<u>15,423,083</u>	<u>14,793,974</u>
Increase in net position before transfers	1,781,872	4,006,711	1,930,800	1,292,092	3,712,672	5,298,803
Transfers	110,477	106,697	( 110,477 )	( 106,697 )	-0-	-0-
Increase in net position	1,892,349	4,113,408	1,820,323	1,185,395	3,712,672	5,298,803
Net position - beginning	<u>36,495,858</u>	<u>32,382,450</u>	<u>15,341,417</u>	<u>14,156,022</u>	<u>51,837,275</u>	<u>46,538,472</u>
Net position - ending	<u>\$ 38,388,207</u>	<u>\$ 36,495,858</u>	<u>\$ 17,161,740</u>	<u>\$ 15,341,417</u>	<u>\$ 55,549,947</u>	<u>\$ 51,837,275</u>

**CITY OF CLUTE, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2017*



## CITY OF CLUTE, TEXAS

Management's Discussion and Analysis  
For the Year Ended September 30, 2017



## **CITY OF CLUTE, TEXAS**

### *Management's Discussion and Analysis For the Year Ended September 30, 2017*

#### **Financial Analysis of the City's Funds**

As noted earlier, the City of Clute uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City of Clute's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$ 17,194,753. The unassigned fund balance of \$ 150,000 constitutes 0.8% of ending fund balance. The remainder of the fund balance is categorized as 1) non-spendable (\$ 4,200,320), 2) restricted (\$ 8,260,016), and 3) assigned (\$ 4,584,417).

The General Fund balance decreased by \$ 2,880,335; the Streets, Drainage and Sidewalks special revenue fund balance decreased by \$ 612,942, the Economic Development Corporation special revenue fund balance increased by \$ 319,342 and the non-major governmental funds increased by \$ 197,278.

**Proprietary funds.** As mentioned earlier, the City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail. The enterprise fund is used to account for its water and sewer operations. Net position at September 30, 2017 amounted to \$ 17,161,740. Total net position increased by \$ 1,820,323 (approximately 11.86%), and was due to increased revenue and increased capital contributions within the Water and Sewer Fund.

**General Fund Budgetary Highlights.** Revenues remained the same from the original budget to the final amended budget. Expenditures were increased by \$ 111,136 from the original budget to the final amended budget. The City's revenues were less than budgeted revenues by \$ 238,621 and the budgeted expenditures exceeded the expenditure amounts by \$ 1,688,640.

#### **Capital Assets**

The City's investment in capital assets for its governmental and business-type activities as of September 30, 2017, amounts to \$ 49,542,264 (net of accumulated depreciation). This investment in capital assets includes land, buildings, furniture, equipment and vehicles, infrastructure, and construction in progress.

Major capital asset events during the current fiscal year included the following:

- Woodshore Development - Section 7A \$ 1,450,000
- Street improvements \$ 800,000
- Sewer line extension \$ 490,331
- Woodshore Development - Section 4 \$ 350,000

(continued)

# **CITY OF CLUTE, TEXAS**

*Management's Discussion and Analysis  
For the Year Ended September 30, 2017*

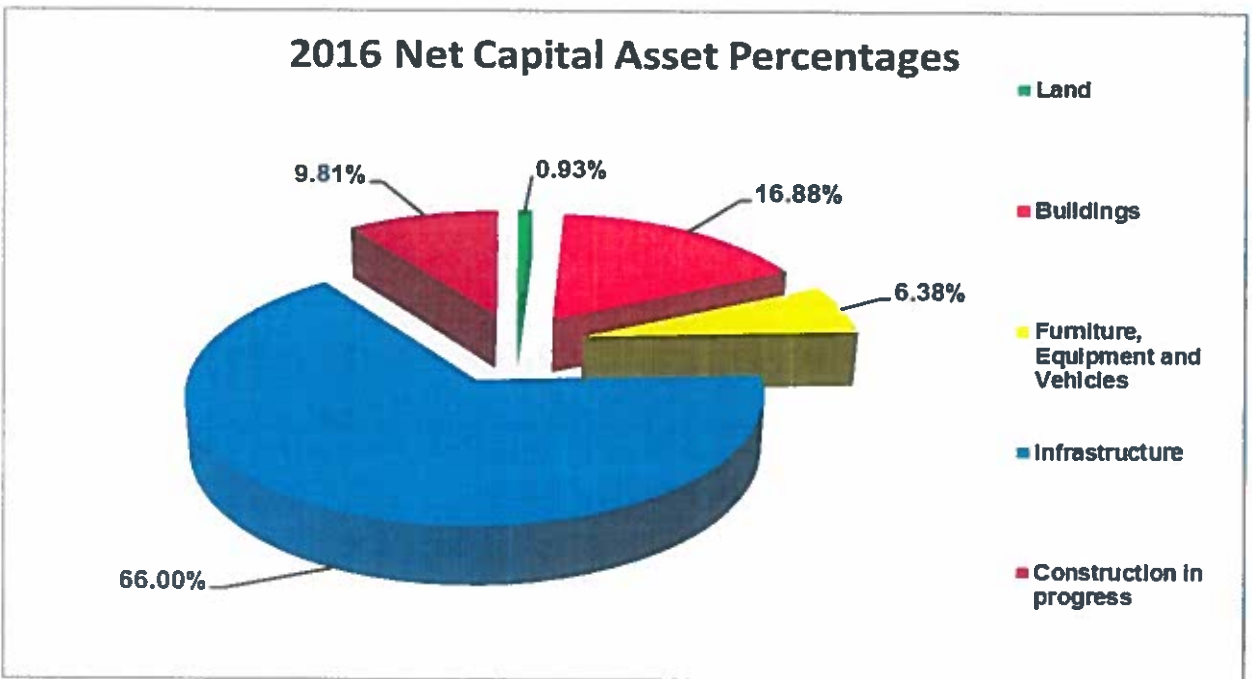
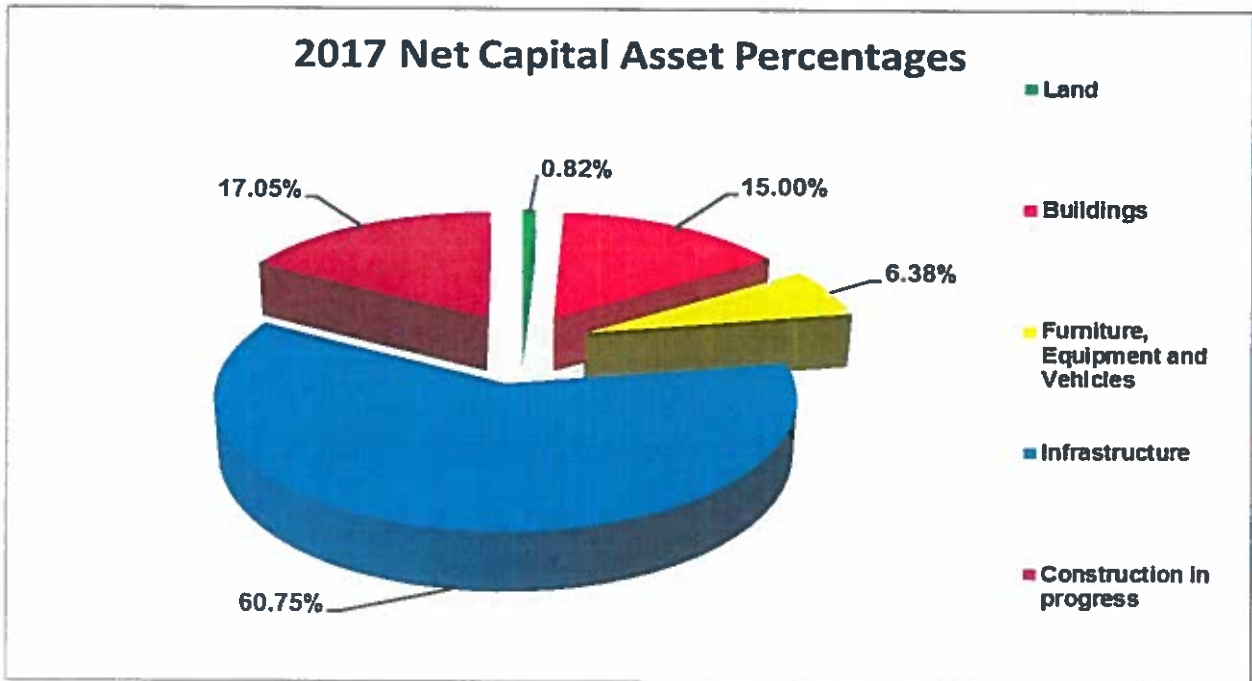
## **Major capital asset events during the current fiscal year – Continued**

- Street list plus contingency \$ 345,000
- Sidewalk improvements \$ 200,000
- Multi-City drainage study \$ 175,000
- Miscellaneous drainage projects \$ 150,000
- Miscellaneous signals \$ 95,000
- Pool slide \$ 85,000
- Demolish old fire station; landscaping \$ 75,000
- WWTP: Replace grit classifier \$ 73,500
- WWTP: Replace lift pump 100HP and rebuild existing \$ 73,500
- Meters and hydrants \$ 70,680
- Vehicles – 2018 Tahoe's for patrol fleet \$ 70,600
- WWTP: Influent trough repair at bridge \$ 52,500
- Miscellaneous sidewalk projects \$ 50,743
- Water line extensions \$ 50,000
- Well building - Cobb field well \$ 45,000
- Mezzanine #2, Tire racks for fleet garage \$ 35,000
- Phase 1: Library upgrades (3 year project) \$ 35,000
- Truck – Ford 1 ton diesel w/dump bed \$ 33,596
- Renovation of 2 on the infields at Stratton Ridge Complex 30,690
- Carpet Council chamber, conference room: paint interior \$ 30,000

## **CITY OF CLUTE'S CAPITAL ASSETS Net of Accumulated Depreciation**

	Governmental Activities		Business-type Activities		Totals	
	September 30,		September 30,		September 30,	
	2017	2016	2017	2016	2017	2016
Land	\$ 398,660	\$ 398,660	\$ 7,562	\$ 7,562	\$ 406,222	\$ 406,222
Buildings	7,207,565	7,150,114	226,223	193,002	7,433,788	7,343,116
Furniture, equipment and vehicles	2,870,266	2,615,714	290,377	160,062	3,160,643	2,775,776
Infrastructure	11,656,053	11,158,941	18,439,017	17,559,637	30,095,070	28,718,578
Construction in progress	<u>6,439,516</u>	<u>2,537,384</u>	<u>2,007,025</u>	<u>1,731,607</u>	<u>8,446,541</u>	<u>4,268,991</u>
Total	<u>\$ 28,572,060</u>	<u>\$ 23,860,813</u>	<u>\$ 20,970,204</u>	<u>\$ 19,651,870</u>	<u>\$ 49,542,264</u>	<u>\$ 43,512,683</u>

**CITY OF CLUTE, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2017*



Additional information on the City of Clute's capital assets can be found in Note 6 on pages 68 through 70 of this report.

**CITY OF CLUTE, TEXAS**

*Management's Discussion and Analysis  
For the Year Ended September 30, 2017*

**Debt Administration****CITY OF CLUTE'S LONG-TERM DEBT**

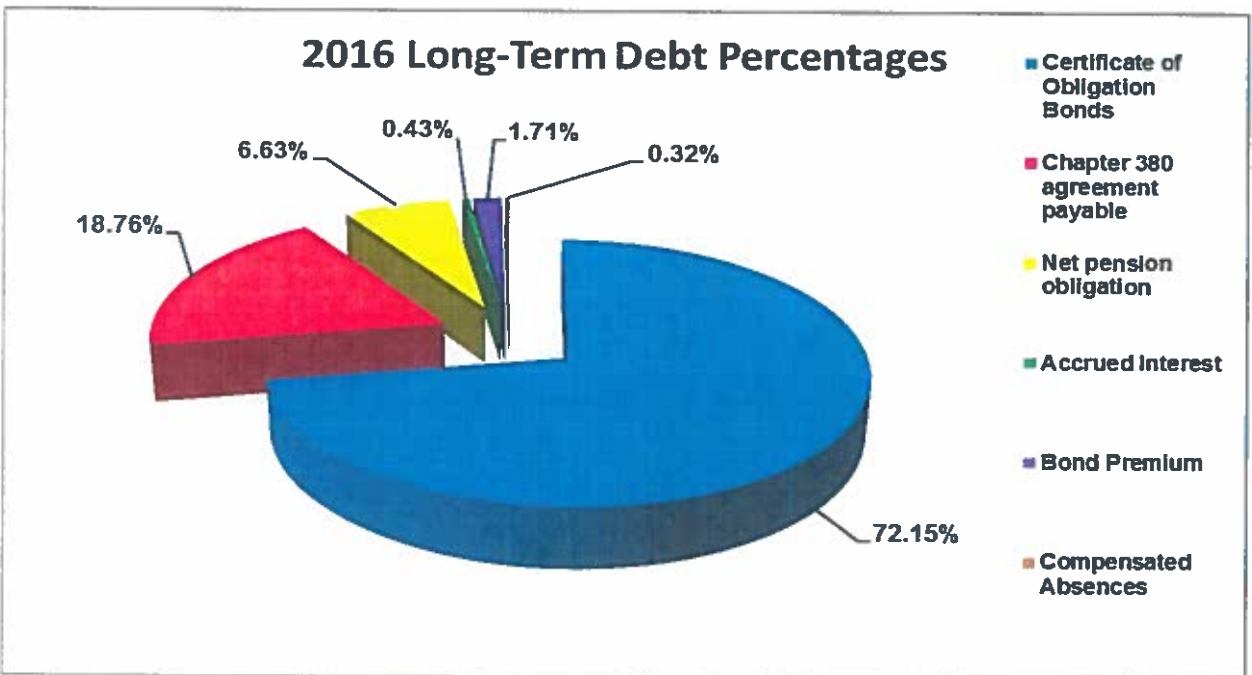
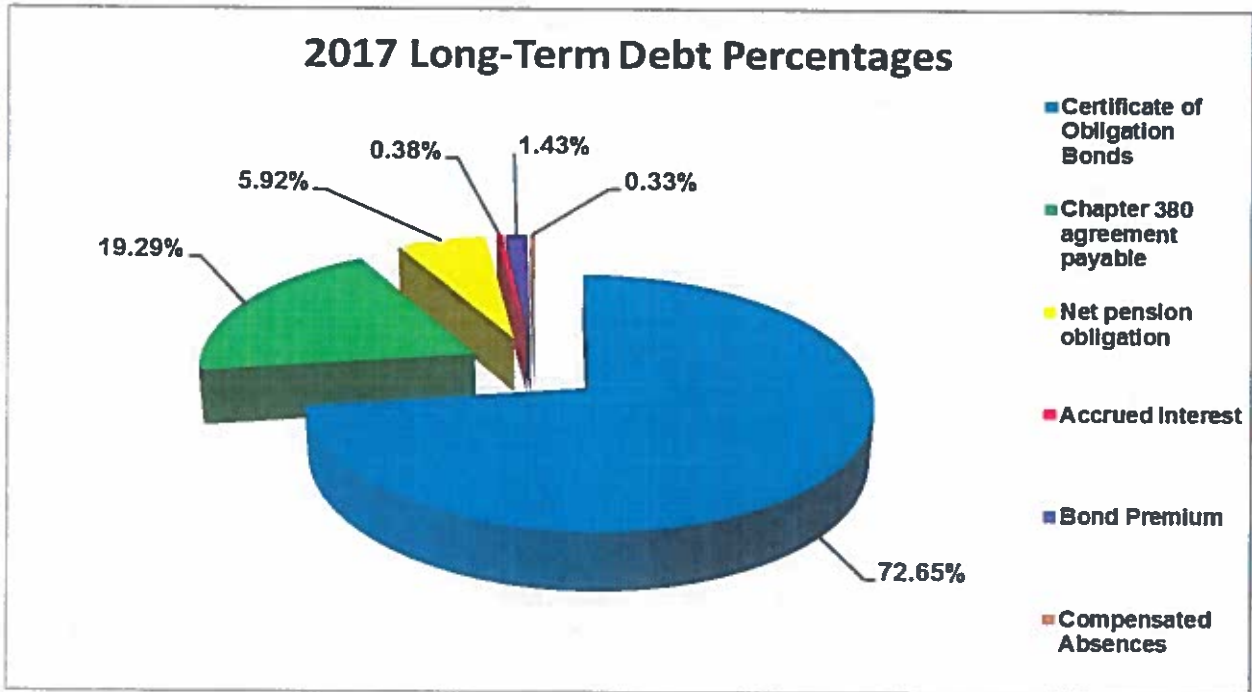
	Governmental Activities		Business-type Activities		Totals	
	2017	2016	2017	2016	2017	2016
Certificates of obligation bonds	\$ 7,190,000	\$ 7,670,000	\$ 6,380,000	\$ 6,560,000	\$ 13,570,000	\$ 14,230,000
Chapter 380 agreement	3,603,662	3,700,000			3,603,662	3,700,000
Net pension obligations	1,039,451	1,226,811	66,083	80,615	1,105,534	1,307,426
Components of Long-Term Debt:						
Accrued interest	39,837	44,767	31,491	41,124	71,328	85,891
Bond premium	167,350	177,791	99,940	158,916	267,290	336,707
Compensated absences	60,379	60,738	1,511	1,520	61,890	62,258
Total	<u>\$ 12,100,679</u>	<u>\$ 12,880,107</u>	<u>\$ 6,579,025</u>	<u>\$ 6,842,175</u>	<u>\$ 18,679,704</u>	<u>\$ 19,722,282</u>

At the end of the current fiscal year, the City of Clute had a total bonded debt payable of \$ 13,570,000. This amount is comprised of bonded debt backed by the full faith and credit of the City. \$ 1,815,000 of these bonds are intended to be retired with transfers from the water and sewer and economic development corporation funds, as well as payments from the water and sewer fund.

On August 9, 2017, the City issued General Obligation Refunding Bonds, Series 2017 in the amount of \$ 1,635,000 for the purpose of defeasing \$ 1,485,000 of Certificates of Obligation Bonds, Series 2009.

Additional information on the City of Clute's long-term debt can be found in Note 15 on pages 84 through 87 of this report.

**CITY OF CLUTE, TEXAS**  
*Management's Discussion and Analysis*  
*For the Year Ended September 30, 2017*



## **CITY OF CLUTE, TEXAS**

*Management's Discussion and Analysis  
For the Year Ended September 30, 2017*

### **Economic Factors and Next Year's Budgets and Rates**

In the fiscal year 2017-2018, property tax valuations are \$ 495,136,866 with a tax rate of \$ 6250 per \$ 100 in valuation. The City is participating in three Chapter 380 Agreements to help spur economic development.

Projected total revenues for fiscal year 2017-2018 are budgeted to be \$ 18,306,182, and budgeted expenditures/expenses for the fiscal year 2017-2018 are \$ 20,623,004, which includes \$ 1,450,000 to be used in conjunction with a Chapter 380 Agreement related to construction of street infrastructure in the College Park Subdivision and \$ 1,000,000 to be used for street improvements, respectively. The City implemented a 3% across-the-board salary rate increase for the 99 full-time and 14 part-time employees to remain competitive with area rates, in addition to a one-time payment to occur in December to all full-time employees of \$1,325 and \$ 663 for part-time employees.

### **Request for Information**

This financial report is designed to provide a general overview of the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the City Manager, 108 E. Main Street, P.O. Box 997, Clute, Texas, 77531, or call (979) 265-2541.

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## **BASIC FINANCIAL STATEMENTS**

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## CITY OF CLUTE

Clute, Texas

Exhibit 1

## STATEMENT OF NET POSITION

September 30, 2017

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and cash equivalents	\$ 8,513,437	\$ 860,191	\$ 9,373,628
Investments	5,671,807	5,618	5,677,425
Taxes receivable (net)	851,417		851,417
Accounts receivables (net)	913,975	285,028	1,199,003
Due from other governments	1,640		1,640
Other receivables		271,822	271,822
Accrued interest receivable	24,595		24,595
Interfund balances	( 1,200,000)	1,200,000	-0-
Long-term notes receivable	4,200,320		4,200,320
Prepaid items	3,145,000	298,355	3,443,355
<b>Restricted Assets:</b>			
Temporarily Restricted:			
Cash and cash equivalents		326,227	326,227
<b>Capital Assets (Net of Accumulated Depreciation):</b>			
Land	398,660	7,562	406,222
Buildings and improvements	7,207,565	226,223	7,433,788
Furniture, equipment and vehicles	2,870,266	18,439,017	21,309,283
Infrastructure	11,656,053	290,377	11,946,430
Construction in progress	6,439,516	2,007,025	8,446,541
<b>Total assets</b>	<b>50,694,251</b>	<b>24,217,445</b>	<b>74,911,696</b>
<b>Deferred Outflows of Resources:</b>			
Deferred outflows of resources	1,209,601	139,918	1,349,519
<b>Total deferred outflows of resources</b>	<b>1,209,601</b>	<b>139,918</b>	<b>1,349,519</b>
<b>Liabilities:</b>			
Accounts payable and accrued expenses	936,368	243,773	1,180,141
Accrued wages and benefits payable	49,213	2,819	52,032
Unearned revenue	54,230	18,334	72,564
Liabilities payable from restricted assets		326,227	326,227
<b>Noncurrent Liabilities:</b>			
Due within one year	600,657	419,165	1,019,822
Due in more than one year	11,500,022	6,159,860	17,659,882
<b>Total liabilities</b>	<b>13,140,490</b>	<b>7,170,178</b>	<b>20,310,668</b>
<b>Deferred Inflows of Resources:</b>			
Deferred inflows of resources	375,155	25,445	25,445
<b>Total deferred inflows of resources</b>	<b>375,155</b>	<b>548,652</b>	<b>253,445</b>
<b>Net Position:</b>			
Net investment in capital assets	21,271,211	14,490,264	35,761,475
Restricted	12,462,663		12,462,663
Unrestricted	4,654,333	2,671,476	7,325,809
<b>Total net position</b>	<b>\$ 38,388,207</b>	<b>\$ 17,161,740</b>	<b>\$ 55,549,947</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF CLUTE**

Clute, Texas

**STATEMENT OF ACTIVITIES**

For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government and administration	\$ 1,276,253	\$	\$	\$
Public safety	5,128,616	1,321,280	270,780	
Sanitation	1,381,973	1,386,723		
Service center	341,381			
Streets and drainage	1,141,887			620,185
Culture and recreation	1,547,758	292,416		
Interest on long-term debt	229,022			
Total governmental activities	<u>11,046,890</u>	<u>3,000,419</u>	<u>270,780</u>	<u>620,185</u>
Business-type Activities:				
Water and sewer	<u>4,376,193</u>	<u>4,787,385</u>		<u>1,509,913</u>
Total business-type activities	<u>4,376,193</u>	<u>4,787,385</u>	<u>-0-</u>	<u>1,509,913</u>
Total	<u>\$ 15,423,083</u>	<u>\$ 7,787,804</u>	<u>\$ 270,780</u>	<u>\$ 2,130,098</u>
General Revenue:				
Taxes:				
Property taxes				
Sales taxes				
Other taxes				
Industrial district				
Investment earnings				
Gain on sale of capital assets				
Miscellaneous				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - beginning				
Net position - ending				

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position		
Governmental Activities	Business- Type Activities	Total
\$( 1,276,253 )	\$	\$( 1,276,253 )
( 3,536,556 )		( 3,536,556 )
4,750		4,750
( 341,381 )		( 341,381 )
( 521,702 )		( 521,702 )
( 1,255,342 )		( 1,255,342 )
( 229,022 )		( 229,022 )
( 7,155,506 )	-0-	( 7,155,506 )
	1,921,105	1,921,105
-0-	1,921,105	1,921,105
( 7,155,506 )	1,921,105	( 5,234,401 )
2,846,908		2,846,908
2,930,363		2,930,363
1,437,454		1,437,454
1,499,898		1,499,898
51,868	7,427	59,295
644	2,268	2,912
170,243		170,243
110,477	( 110,477 )	-0-
9,047,855	( 100,782 )	8,947,073
1,892,349	1,820,323	3,712,672
36,495,858	15,341,417	51,837,275
\$ 38,388,207	\$ 17,161,740	\$ 55,549,947

**CITY OF CLUTE**

Clute, Texas

**BALANCE SHEET  
GOVERNMENTAL FUNDS**

September 30, 2017

	<u>Major Governmental Funds</u>		
	<u>General</u>	<u>Streets, Drainage and Sidewalks</u>	<u>Economic Development Corporation</u>
<u>Assets and Deferred Outflows of Resources</u>			
Assets:			
Cash and temporary investments	\$ 3,699,153	\$ 2,074,139	\$ 1,351,578
Investments	3,190,784	566,052	1,914,971
Receivables (net of allowance for uncollectibles):			
Ad valorem taxes	69,964		
Other taxes	574,691		
Accounts	16,680		
Accrued interest	24,595		
Due from other governments	1,551		
Due from other funds	209,255	750,000	
Long-term notes receivable	<u>4,200,320</u>		
Total assets	11,956,993	3,390,191	3,266,549
Deferred Outflows of Resources:			
Total deferred outflows of resources			
Total assets and deferred outflows of resources	<u>\$ 11,956,993</u>	<u>\$ 3,390,191</u>	<u>\$ 3,266,549</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>			
Liabilities:			
Accounts payable	\$ 828,533	\$ 32,540	\$ 1,170
Accrued wages and benefits payable	40,461		
Due to other funds	1,950,000		
Unearned revenue	<u>54,230</u>		
Total liabilities	<u>2,873,224</u>	<u>32,540</u>	<u>1,170</u>
Deferred Inflows of Resources:			
Deferred inflows of resources - property taxes	<u>63,009</u>		
Total deferred inflows of resources	<u>63,009</u>	<u>-0-</u>	<u>-0-</u>
Fund Balance:			
Non-spendable	4,200,320		
Restricted	132,752	3,357,651	3,265,379
Assigned	4,537,688		
Unassigned	<u>150,000</u>		
Total fund balances	<u>9,020,760</u>	<u>3,357,651</u>	<u>3,265,379</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 11,956,993</u>	<u>\$ 3,390,191</u>	<u>\$ 3,266,549</u>

The notes to the financial statements are an integral part of this statement.

Non-Major Governmental Funds	Total Governmental Funds
\$ 1,418,567	\$ 8,513,437
	5,671,807
2,951	72,915
203,811	778,502
220,004	236,684
	24,595
89	1,640
	959,255
	<u>4,200,320</u>
1,845,422	20,459,155
	<u>-0-</u>
<u>\$ 1,845,422</u>	<u>\$ 20,459,155</u>
\$ 74,125	\$ 936,368
8,752	49,213
209,255	2,159,255
	<u>54,230</u>
<u>292,132</u>	<u>3,199,066</u>
<u>2,327</u>	<u>65,336</u>
<u>2,327</u>	<u>65,336</u>
	4,200,320
1,504,234	8,260,016
46,729	4,584,417
	<u>150,000</u>
<u>1,550,963</u>	<u>17,194,753</u>
<u>\$ 1,845,422</u>	<u>\$ 20,459,155</u>

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION  
September 30, 2017

Total fund balances – governmental funds balance sheet	\$ 17,194,753
<b>Amounts reported for <i>governmental activities</i> in the statement of net position are different because:</b>	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 43,224,502 in assets less \$ 14,652,442 in accumulated depreciation.	28,572,060
Municipal court accounts receivable net of related allowance for uncollectibles are unavailable to pay for current period expenditures and availability of funds are uncertain as to availability are not recorded in the funds. Municipal court receivables (\$ 1,770,414 net of allowance for uncollectible accounts of \$ 1,093,123) of the general fund amounted to \$ 677,291.	677,291
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund amounted to \$ 65,336.	65,336
TMRS pension deferred outflows of resources of \$ 1,184,803 and pension deferred inflows of resources of \$ 343,328.	841,475
TESRS pension deferred outflows of resources of \$ 24,798 and pension deferred inflows of resources of \$ 31,827.	( 7,029)
TMRS payables for net pension obligation are not reported in the funds.	( 871,368)
TESRS payable for net pension obligation are not reported in the funds.	( 168,083)
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds increase long-term liabilities in the statement of net assets. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds were \$ 167,350 (premium on sale of bonds of \$ 193,519 less amortization costs of \$ 26,169).	( 167,350)
Payables for bond principal are not reported in the funds.	( 7,190,000)
Payables for long-term Chapter 380 agreement \$ 3,603,662 less related prepaid Chapter 380 agreement of \$ 3,145,000 (\$ 3,700,000 less amortization of \$ 555,000).	( 458,662)
Payables for long-term compensated absences are not reported in the funds.	( 60,379)
Payables for bond interest are not reported in the funds.	( 39,837)
Net position of governmental activities - statement of net position.	\$ <u>38,388,207</u>

The notes to the financial statements are an integral part of this statement.

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# CITY OF CLUTE

Clute, Texas

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the Year Ended September 30, 2017

	General	Streets, Drainage and Sidewalks	Economic Development Cororation
Revenues:			
Property taxes	\$ 2,657,508	\$	\$
Sales tax	1,172,145	781,430	976,788
Other taxes	614,834		
Industrial district	1,499,898		
Intergovernmental revenues	11,990	162,235	
Revenue producing facilities	1,578,936		
EMS revenues			
Fines and fees	500,990		
Licenses and fees	259,179		
Investment income	( 15,182)	8,521	( 15,385)
Miscellaneous	170,388		
Total revenues	8,450,686	952,186	961,403
Expenditures:			
Current:			
General government and administration	788,936		10,442
Public safety	3,783,228		
Sanitation	1,713,056		
Service center	340,444		
Streets and drainage	696,538		
Culture and recreation	875,176		
Capital outlay	3,852,953	515,128	
Debt Service:			
Principal retirement	286,338		
Interest and fiscal charges	78,596		
Total expenditures	12,415,265	515,128	10,442
Excess (deficiency) of revenues over (under) expenditures	( 3,964,579)	437,058	950,961
Other Financing Sources (Uses):			
Proceeds from sale of capital assets	11,098		
Transfers in	1,579,843		
Transfers out	( 506,697)	( 1,050,000)	( 631,619)
Total other financing sources (uses)	1,084,244	( 1,050,000)	( 631,619)
Change in fund balances	( 2,880,335)	( 612,942)	319,342
Fund balance, beginning	11,901,095	3,970,593	2,946,037
Fund balance, ending	\$ 9,020,760	\$ 3,357,651	\$ 3,265,379

The notes to the financial statements are an integral part of this statement.

Non-Major Governmental Funds	Total Governmental Funds
\$ 168,596	\$ 2,826,104
	2,930,363
822,620	1,437,454
	1,499,898
	174,225
159,249	1,738,185
550,114	550,114
	500,990
	259,179
4,711	( 17,335)
<u>258,790</u>	<u>429,178</u>
<u>1,964,080</u>	<u>12,328,355</u>
	799,378
1,216,426	4,999,654
	1,713,056
	340,444
	696,538
668,962	1,544,138
144,567	4,512,648
290,000	576,338
<u>165,797</u>	<u>244,393</u>
<u>2,485,752</u>	<u>15,426,587</u>
( <u>521,672</u> )	( <u>3,098,232</u> )
	11,098
944,720	2,524,563
( <u>225,770</u> )	( <u>2,414,086</u> )
<u>718,950</u>	<u>121,575</u>
197,278	( 2,976,657 )
<u>1,353,685</u>	<u>20,171,410</u>
<u>\$ 1,550,963</u>	<u>\$ 17,194,753</u>

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES  
For the Year Ended September 30, 2017

Net change in fund balances – total governmental funds \$( 2,976,657)

**Amounts reported for governmental activities in the statement of activities are different because:**

Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay \$ 5,589,763 exceeded depreciation \$ 1,326,012 in the current period.	4,263,751
Contributions of capital assets are not reported in the funds, however, contributions of capital assets are reported as capital contributions in the governmental activities statement of activities. During the current year, \$ 457,950 roads and other infrastructure were contributed to and accepted by the City.	457,950
Governmental funds report pension payments as expenditures. However, in the governmental activities statement of activities, the pension cost is calculated by an actuary and involves multiple factors. The amount of pension expense reported was \$ 36,919 more than the amount reported in the funds.	( 36,919)
Municipal court revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. The change in municipal court receivables, net of allowance, amounted to \$ 48,050.	( 48,050)
Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues for the general fund and the debt service fund increased by \$ 18,333 and \$ 2,327, respectively.	20,660
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net position. These amounts were for general obligation bonded debt of \$ 480,000 and Chapter 380 agreement of \$ 96,338.	576,338
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net assets. This amount is amortized over the life of the bonds. The amortization of bond premiums were \$ 10,441.	10,441
Net long-term liabilities and long-term prepaid expenses (Chapter 380 agreement debt of \$ 3,515,000 less prepaid expenses of \$ 3,145,000) are not reported in the governmental funds balance sheet. The difference represents current year amortization of prepaid expenses of \$ 370,000.	( 370,000)
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the basis in assets retired in the amount of \$ 10,454, (original cost of assets of \$ 313,030 less accumulated depreciation of \$ 302,576).	( 10,454)
Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the change in accrued interest on long-term debt of \$ 4,930, plus accrued compensated absences of \$ 359 was \$ 5,289.	5,289

Change in net position of governmental activities	\$ <u>1,892,349</u>
The notes to the financial statements are an integral part of this statement.	

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STATEMENT OF NET POSITION - PROPRIETARY FUND (ENTERPRISE)  
September 30, 2017

	<u>2017</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Assets:	
Current Assets:	
Cash and temporary investments	\$ 860,191
Investments	5,618
Receivables (Net of Allowance for Uncollectibles):	
Utility accounts	285,028
Other	271,822
Due from other funds	1,200,000
Prepaid items	<u>298,355</u>
Total unrestricted current assets	<u>2,921,014</u>
Restricted Assets:	
Cash and temporary investments	<u>326,227</u>
Total restricted current assets	<u>326,227</u>
Total current assets	<u>3,247,241</u>
Noncurrent Assets:	
Capital Assets:	
Property, plant and equipment	33,185,370
Less accumulated depreciation	<u>( 12,215,166 )</u>
Total capital assets (net of accumulated depreciation)	<u>20,970,204</u>
Total assets	<u>24,217,445</u>
Deferred Outflows of Resources:	
Deferred outflows of resources	<u>139,918</u>
Total deferred outflows of resources	<u>139,918</u>
Total assets and deferred outflows of resources	<u>\$ 24,357,363</u>

**STATEMENT OF NET POSITION - PROPRIETARY FUND (ENTERPRISE)**  
September 30, 2017

	<u>2017</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	
<b>Liabilities:</b>	
<b>Current Liabilities:</b>	
Accounts payable and accrued expenses	\$ 243,773
Accrued wages	2,819
Accrued compensated absences	1,511
Accrued interest payable	31,491
Bonds payable – current	386,163
Unearned revenue	<u>18,334</u>
Total current unrestricted liabilities	<u>684,091</u>
<b>Current Liabilities Payable from Restricted Assets:</b>	
Customer deposits payable	<u>326,227</u>
Total current restricted liabilities	<u>326,227</u>
Total current liabilities	<u>1,010,318</u>
<b>Non-current Liabilities:</b>	
Bonds payable - net	6,093,777
Pension liability - net	<u>66,083</u>
Total noncurrent liabilities	<u>6,159,860</u>
Total liabilities	<u>7,170,178</u>
<b>Deferred Inflows of Resources:</b>	
Deferred inflows of resources	<u>25,445</u>
Total deferred inflows of resources	<u>25,445</u>
<b>Net Position:</b>	
Net investment in capital assets	14,490,264
Unrestricted	<u>2,671,476</u>
Total net position	<u>17,161,740</u>
Total liabilities, deferred outflows of resources, and net position	<u>\$ 24,357,363</u>

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
NET POSITION - PROPRIETARY FUND (ENTERPRISE)**  
For the Years Ended September 30, 2017

	<u>2017</u>
Operating Revenues:	
Water service	\$ 2,165,434
Sewer service	2,051,618
Tapping and reconnection fees	53,238
Penalties	57,603
Other governments	317,688
Operating lease income	135,592
Miscellaneous	<u>6,212</u>
Total operating revenues	<u>4,787,385</u>
Operating Expenses:	
Administrative	410,359
Sewer treatment	<u>2,565,406</u>
Operating expenses before depreciation	2,975,765
Depreciation	<u>1,133,878</u>
Total operating expenses	<u>4,109,643</u>
Net operating income	<u>677,742</u>
Non-Operating Revenues (Expenses):	
Interest revenue	7,427
Unrealized loss on investments	( 62 )
Gain on sale of capital assets	2,268
Bond interest and fees	<u>( 266,488 )</u>
Total non-operating revenues (expenses)	<u>( 256,855 )</u>
Net income before contributions and transfers	420,887
Contributions	1,509,913
Transfers out	<u>( 110,477 )</u>
Change in net position	1,820,323
Net position, beginning	<u>15,341,417</u>
Net position, ending	<u>\$ 17,161,740</u>

The notes to the financial statements are an integral part of this statement.

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STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND (ENTERPRISE)  
For the Years Ended September 30, 2017

	<u>2017</u>
Cash Flows from Operating Activities:	
Receipts from customers and users	\$ 4,889,350
Payments to other funds	( 700,000 )
Payments to suppliers	( 3,296,595 )
Payments to employees	( 504,285 )
Net cash provided by operating activities	<u>388,470</u>
Cash Flows from Non-Capital Financing Activities:	
Transfers to other funds	( 110,477 )
Net cash used by non-capital financing activities	<u>( 110,477 )</u>
Cash Flows from Capital and Related Financing Activities:	
Issuance of bonds	1,635,000
Escrow payment for defeasement of refunded bonds	( 1,576,630 )
Principal bond payments	( 330,000 )
Interest and fees paid under debt obligations	( 243,467 )
Proceeds from sale of capital assets	2,268
Purchase of capital assets	( 2,452,212 )
Contributed capital	<u>1,509,913</u>
Net cash used by capital and related financing activities	<u>( 1,455,128 )</u>
Cash Flows from Investing Activities:	
Investment income	<u>7,428</u>
Net cash provided by investing activities	<u>7,428</u>
Net change in cash and cash equivalents	( 1,169,707 )
Cash and cash equivalents at the beginning of year	<u>2,356,125</u>
Cash and cash equivalents at the end of the year	<u>\$ 1,186,418</u>

**STATEMENT OF CASH FLOWS -  
PROPRIETARY FUND (ENTERPRISE)  
For the Years Ended September 30, 2017**

	<u>2017</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating Activities:	
Net operating income	\$ <u>677,742</u>
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Depreciation	1,133,878
(Increase) Decrease in:	
Accounts receivable	( 88,393)
Other receivable	196,851
Due from other funds	( 700,000)
Prepaid items	( 32,218)
Deferred outflows of resources	( 41,768)
Increase (Decrease) In:	
Accounts payable	( 730,540)
Accrued wages and benefits payable	( 2,720)
Accrued compensated absences	( 9)
Customer deposits	7,430
Unearned revenue	( 13,923)
Pension liability	( 14,532)
Due to other funds	( 3,328)
Total adjustments	( 289,272)
Net cash provided by operating activities	\$ <u><u>388,470</u></u>
Non-Cash Investing, Capital and Financing Activities:	
Contributions from other governments	\$ 15,019,913
Unrealized loss on investments	( 62)
Net effect of non-cash transactions	\$ <u><u>15,019,851</u></u>

The notes to the financial statements are an integral part of this statement.

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# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

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## CITY OF CLUTE

Clute, Texas

### NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Clute operates under a Home Rule Charter adopted in a special election on November 7, 1957. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public services, highways and streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services.

The City prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources. The City's Financial Statements are in accordance with GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" which provides additional guidance for the implementation of GASB Statement No. 34, and GASB Statement No. 38 "Certain Financial Statement Disclosures" which changes the note disclosure requirements in the financial statements for governmental entities. GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, government-wide financial statements, required supplementary information and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes. The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow users of financial reports to assess a government's operational accountability. The GASB Statement No. 34 reporting model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

The following is a summary of the most significant accounting policies.

#### *Primary Government*

The City is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations, or functions, as part of the City's financial reporting entity. Based on these considerations, the City's basic financial statements do not include any other entities. Additionally, as the City is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the City's financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### *Primary Government - continued*

Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The members of City council (the "members") are elected by the public and have the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a financial reporting entity as defined by the GASB in its GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14, and No. 34".

#### *Component Unit*

In 1999, the City of Freeport (the "City") authorized the creation and approved the Articles of Incorporation and the Bylaws of the Freeport Economic Development Corporation (the "Corporation"). The Articles of Incorporation were filed with the Office of the Secretary of State of Texas on December 20, 1999. The Corporation, a nonprofit corporation, organized under Section 4B of the development Corporation Act of 1979 was created to act on behalf of the City in the promotion and financing of projects so as to promote the public welfare. State law allows the City to collect sales tax to assist in the promoting and developing activities of the City. The Corporation has been included as a blended component unit in the City's financial statements. The City Council approves the budget of the Corporation and appoints the members of the Board of Directors of the Corporation.

#### Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Government-Wide and Fund Financial Statements - continued

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has only one enterprise fund.

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues from property and sales taxes, grants and contracts, charges for services, licenses and permits, fines and forfeitures, and interest associated with the current fiscal period are all considered to be susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Measurement Focus, Basis Of Accounting, and Financial Statement Presentation - continued**

Grant funds are considered earned to the extent of the expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until the related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the City to refund all or part of the unused amount.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and 2) operating and capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services and rentals.

Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

The City has presented the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the City, except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the general fund.

The *Streets, Drainage and Sidewalks special revenue fund* accounts for forty percent of the sales taxes collected and approved expenditures related to the construction of a new sewer, new sidewalks, new curbs and gutters, and the resurfacing of existing streets and new streets.

The *Economic Development Corporation special revenue fund* accounts for the Economic Development Sales tax (one-third of all sales tax) and approved expenditures for providing parks and recreation facilities and infrastructure projects.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Measurement Focus, Basis Of Accounting, and Financial Statement Presentation - continued

The City reports the following major proprietary fund:

The *Enterprise Fund* is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the funds.

#### New Pronouncements

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of Statements 67 and 68" was issued June 2015. The statement was implemented and did not have an impact on the City's financial statements. This statement is effective for periods beginning after June 15, 2016.

GASB No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" was issued June 2015. The statement was implemented and did not have an impact on the City's financial statements. This statement is effective for periods beginning after June 15, 2016.

GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was issued June 2015. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. This statement is effective for periods beginning after June 15, 2017.

GASB No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" was issued June 2015. The statement was implemented and did not have an impact on the City's financial statements. This statement is effective for periods beginning after June 15, 2015.

GASB No. 77 "Tax Abatement Disclosures" was issued in August 2015. The statement was implemented and did not have an impact on the City's financial statements. This statement is effective for periods beginning after December 15, 2015.

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**New Pronouncements - continued**

GASB No. 78, "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans" was issued in December 2015. The statement was implemented and did not have an impact on the City's financial statements. This statement is effective for periods beginning after December 15, 2015.

GASB No. 79, "Certain External Investment Pools and Pool Participants" was issued in December 2015. The statement was implemented and did not have an impact on the City's financial statements. This statement is effective for periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26, and 40, which is effective for reporting periods beginning after December 15, 2015.

GASB No. 80 "Blending Requirements for Certain Component Units and amendment of GASB No. 14" was issued in January 2016. The statement was implemented and did not have an impact on the City's financial statements. This statement is effective for periods beginning after June 15, 2016.

GASB No. 81 "Irrevocable Split-Interest Agreements" was issued in March 2016. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. The requirements of this Statement are effective for periods beginning after December 15, 2016.

GASB No. 82 "Pension Issues – an amendment of GASB No. 67, No. 68, and No. 73" was issued in March 2016. The statement was implemented and did not have an impact on the City's financial statements. The requirements of this Statement are effective for periods beginning after June 15, 2016.

GASB No. 83 "Certain Asset Retirement Obligations" was issued in November 2016. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. The requirements of this Statement are effective for periods beginning after June 15, 2018.

GASB No. 84 "Fiduciary Activities" was issued in January 2017. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. The requirements of this Statement are effective for periods beginning after December 15, 2018.

GASB No. 85 "Omnibus 2017" was issued in March 2017. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. The requirements of this Statement are effective for periods beginning after June 15, 2017.

## CITY OF CLUTE

Clute, Texas

### NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

##### New Pronouncements - continued

GASB No. 86 "Certain Debt Extinguishment Issues" was issued in May 2017. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. The requirements of this Statement are effective for periods beginning after June 15, 2017.

GASB No. 87 "Leases" was issued in June 2017. The management of the City does not expect the implementation of this standard to have a material effect on the financial statements of the City. The requirements of this Statement are effective for periods beginning after December 15, 2019.

##### Budgetary Data

In late August, each department of the City submits requests for appropriation to the City Manager so that a budget may be prepared. The budget is prepared by fund and includes requested appropriations for the next year. The proposed budget is presented to members of the City Council for review. The City Council holds budget workshops in September and may add to, subtract from, or change appropriations. A public hearing is held prior to adoption.

Once the budget is adopted, expenditures may not legally exceed total appropriations at the fund level without approval of a majority of the Council. Line item and department budgets may exceed appropriated amounts at the discretion of management as long as total expenditures for the fund do not exceed appropriated amounts. Revisions to the budget were made during the year. Appropriations not exercised in the current year lapse at the end of the year.

The City adopts annual budgets for all significant governmental fund types (general fund and special revenue funds) and proprietary fund type (enterprise funds). The budget and all transactions are presented in GAAP basis in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General, Streets, Drainage and Sidewalks Special Revenue, Emergency Medical Service Special Revenue, Economic Development Corporation Special Revenue, Hotel-Motel Special Revenue, Great Texas Mosquito Festival (Non-Major) Special Revenue, Debt Service, and Enterprise Fund to provide a meaningful comparison of actual results with the budget.

##### Encumbrances

The City does not employ a complete purchase order system for all expenditures and therefore does not utilize encumbrance accounting. Appropriations lapse at the end of the fiscal year.

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Cash and Cash Equivalents and Investments**

Cash and temporary investments include amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the City. For purposes of the cash flow statement, cash and temporary investments are considered cash equivalents. In accordance with GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are stated at fair value. State statutes authorize the government to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements, and other such securities or obligations as allowed in the Public Funds Investment Act (PFIA) as amended and approved by the City's Council. The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

**Property Taxes**

Taxes receivable and related allowance for uncollectible are reported in the General Fund. The City levies taxes on or about October 1, of each year. These taxes are due by January 31, and are considered delinquent after that date, at which time interest is charged at a rate established by the state property tax code. Collections made on or after July 1, are subject to an additional fifteen percent collection fee.

The assessed value of the property tax roll on August 1, 2016, upon which the levy for the 2016-17 fiscal year was based, was \$ 417,570,451. The tax rates assessed for the year ended September 30, 2017 was \$ \$ 0.643000) to finance general fund operations and debt service was \$ 0.604349 and \$ 0.038651 per \$ 100 valuation, respectively.

Current tax collections for the year ended September 30, 2017 were 98.68% of the year-end adjusted tax levy. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of September 30, 2017, property taxes receivable in the general fund was \$ 69,964 and debt service fund was \$ 2,951, net of estimated uncollectible taxes, totaling \$ 72,915.

**Interfund Receivables, Payables and Transfers**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All outstanding balances between funds are reported as "due to/from other funds". The City had no advances between funds. See Note 5 for additional discussion of interfund receivables, payables and transfers.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

#### Inventories

The City uses the purchase method of accounting for inventory. In the purchase method of accounting for inventory, purchases of inventory items are recorded as expenditures when acquired and inventory on hand at the end of the period is recorded as an asset and a reservation of fund balance if significant. Inventory at September 30, 2017 was not significant and therefore, is not recorded.

#### Pension Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and Texas Emergency Services Retirement System (TESRS) and additions to/deductions from TMRS's and TESRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS and TESRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

#### Capital Assets

Capital assets, which includes property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Assets capitalized have an original cost of \$ 5,000 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50 Years
Sewer Plant	50 Years
Sewer System:	
Sewer lines	50 Years
Lift station pumps	15 Years
Water System:	
Water lines	50 Years
Storage tanks	50 Years
Water wells	40 Years
Equipment	5-20 Years
Vehicles	5-8 Years

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Deferred Outflows and Inflows of Resources**

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, "Items Previously Reported as Assets and Liabilities", had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

**Long-Term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt is reported as other financing resources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity**

The City Council meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The City's Unassigned General Fund Balance is maintained to provide the City with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the City Council. Fund Balance of the City may be committed for a specific source by formal action of the City Council. Amendments or modifications of the committed fund balance must also be approved by formal action by the City Council. When it is appropriate for fund balance to be assigned, the City Council has delegated authority to the Mayor or City Manager. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, followed by assigned fund balance, and lastly, unassigned fund balance.

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - Continued

**Fund Equity** - continued

During the fiscal year 2011, the City implemented GASB 54, "Fund Balance, Reporting and Governmental Fund Type Definitions", for its governmental funds. Under GASB 54, fund balances are required to be reported according to the following classifications:

**Non-spendable Fund Balance** - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

**Restricted Fund Balance** - Constraints placed on the use of these resources are either externally imposed by creditors (such as through covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions enabling legislation).

**Committed Fund Balance** - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

**Assigned Fund Balance** - Amounts that are constrained by the City's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all government funds with positive balances.

**Unassigned Fund Balance** - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Governmental Fund Financial Statements:**

The following schedule presents details of fund balance components at September 30, 2017.

	<u>Major Funds</u>				
		<u>Special Revenue Funds</u>			
	<u>General</u>	<u>Streets, Drainage &amp; Sidewalks Fund</u>	<u>Economic Development Corporation Fund</u>	<u>Non-Major Govern- mental Funds</u>	<u>Total Govern- mental Funds</u>
<b>Fund Balances:</b>					
Non-spendable:					
Long-term receivables	\$ 4,200,320	\$	\$	\$	\$ 4,200,320
Restricted:					
Municipal court security	25,718				25,718
Municipal court technology	104,036				104,036
Judicial efficiency	2,998				2,998
Streets, drainage and sidewalks		3,357,651			3,357,651
Economic development			3,265,379	1,465,799	4,731,178
Debt service				38,435	38,435
Assigned:					
Capital improvement	1,524,066				1,524,066
Equipment replacement	2,593,182				2,593,182
Chapter 380 agreement	369,907				369,907
Police operations	50,533				50,533
Emergency services				46,729	46,729
Unassigned	<u>150,000</u>				<u>150,000</u>
 Total fund balances	 <u>\$ 9,020,760</u>	 <u>\$ 3,357,651</u>	 <u>\$ 3,265,379</u>	 <u>\$ 1,550,963</u>	 <u>\$ 17,194,753</u>

**Net Position**

Net position represents the differences between assets and deferred outflows of resources, and liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and the outstanding balances of any borrowing spent for the acquisition, construction or improvements of those assets. Net position reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**CITY OF CLUTE**

Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued****Net Position - continued**

	Governmental Activities	Business- type Activities	Total
Net Position:			
Net investment in capital assets	\$ 21,271,211	\$ 14,490,264	\$ 35,761,475
Restricted:			
Long-term note receivable	4,200,320		4,200,320
Municipal court security	25,718		25,718
Municipal court technology	104,036		104,036
Judicial efficiency	2,998		2,998
Streets, drainage and sidewalks	3,357,651		3,357,651
Economic development	4,731,178		4,731,178
Debt service	40,762		40,762
Unrestricted	<u>4,654,333</u>	<u>2,671,476</u>	<u>7,325,809</u>
Total net position	<u>\$ 38,388,207</u>	<u>\$ 17,161,740</u>	<u>\$ 55,549,947</u>

**NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES**

The City classifies deposits and investments for financial statement purposes as cash and temporary investments, and investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose a temporary investment is one that when purchased had a maturity date of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of more than one year. See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures.

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES** - Continued

Cash and temporary investments, as reported on the statement of net position at September 30, 2017 (totals memorandum only) are as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and Temporary Investments:			
Cash (petty cash accounts)	\$ 2,915	\$	\$ 2,915
Financial Institution Deposits:			
Demand deposits	2,229,199	326,227	2,555,426
State Treasury Investment Pool:			
Texpool	<u>7,141,514</u>	<u>                    </u>	<u>7,141,514</u>
Total cash and temporary investments	9,373,628	326,227	9,699,855
Investments:			
Investments Held by Broker-Dealers:			
U.S. government and agency securities	<u>5,677,425</u>	<u>                    </u>	<u>5,677,425</u>
Total	<u>\$ 15,051,053</u>	<u>\$ 326,227</u>	<u>\$ 15,377,280</u>

**Deposits**

All deposits with financial institutions must be collateralized in an amount equal to 100 percent of uninsured balances. At September 30, 2017, in addition to petty cash of \$ 2,915, the carrying amount of the City's cash, savings, time deposits, and money markets was \$ 2,555,426. The financial institutions balances were \$ 3,272,815 at September 30, 2017. Bank balances of \$ 500,000 were covered by federal depository insurance, \$ 500,000 covered by securities depository insurance, \$ 1,976,738 was covered by collateral pledged in the City's name, and \$ 296,077 was covered by other insurance. The collateral was held in safekeeping departments of unrelated banks, which act as the pledging bank's agent. The City maintains copies of all safekeeping receipts.

**Custodial Credit Risk - Deposits.** Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to them. The City requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

Under Texas state law, a bank serving as the City depository must have a bond or in lieu thereof, deposited or pledged securities with the City or an independent third party agent, an amount equal to the highest daily balance of all deposits the City may have during the term of the depository contract, less any applicable FDIC insurance.

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the City to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

## CITY OF CLUTE

Clute, Texas

### NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

#### NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

##### Investments

The City's deposits and investments are invested pursuant to the investment policy, which is approved by the Board of Trustees. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it addresses the priorities of preservation of capital, liquidity, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the City will deposit funds is addressed. The City's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The City's management believes it complied with the requirements of the PFIA and the City's investment policy.

The City's Investment Committee submits an investment report each quarter to the City Council. The report details the investment positions of the City and the compliance of the investment portfolio's as they relate to both the investment strategy and policy approved by City Council and Texas State law.

The City is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Fully insured or collateralized certificate of deposit of commercial banks;
2. U.S. Treasury Securities maturing in less than three (3) years;
3. Short-term obligations of U.S. Government Agencies which are guaranteed by the full faith and credit of the United States of America as to principle and interest;
4. Repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency Securities in accordance with a master repurchase agreement approved by the Investment Committee;
5. Eligible investment pools authorized by the City Council;
6. Domestic securities that are obligations of, or guaranteed by, the U.S. Government or its agencies and are registered with the Securities and Exchange Commission and traded on a recognized U.S. securities exchange or over-the-counter-market.
7. Fixed income securities including domestic fixed and variable rate bonds and notes issued by the U.S. Government and its Agencies, securitized mortgages and collateralized mortgage obligations.
8. Other securities or obligations approved by the Investment Committee and authorized by the Local Government Code, Sections 2256.006 and 2256.016.

The City participates in one Local Government Investment Pools (LGIPs): Texpool. The State Comptroller of Public Accounts oversees Texpool. Federated Investors is the full service provider to the pools managing the assets, providing participant services, and arranging for all custody and other functions in support of the pool's operations under a contract with the Comptroller.

The City invests in Texpool to provide its liquidity needs. Texpool is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texpool is a 2(a)7 like fund, meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texpool is rated AAA and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES** - Continued

**Investments** - continued

At September 30, 2017 Texpool had a weighted average maturity of 37 days. Although Texpool portfolio had a weighted average maturity of 37 days, the City considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

The City also invests in an asset management pool, UBS Global Asset Management (GAM), through UBS Financial Services, Inc. The pool invests conservatively in U.S. securities. The U.S. securities, which make up 100% of the City's investments with UBS, have a weighted average maturity of 3,715 days. Although the UBS portfolio had a weighted average maturity of 3,715 days, the City considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

All of the City's investments are insured, registered, or the City's agent holds the securities in the City's name; therefore, the City is not exposed to custodial credit risk.

The following table includes the portfolio balances of all investment types of the City at September 30, 2017.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Local government investment pools (LGIP)	\$ 7,141,514	37
U.S. Government Securities	<u>5,677,425</u>	3,715
	<u>\$ 12,818,939</u>	1,666

**Credit Risk** - As of September 30, 2017, the LGIPs (which represent approximately 56% of the City's portfolio) are rated AAAM by Standard and Poor's. Approximately 44% of the portfolio consists of direct obligations of the US government.

**Interest rate Risk** - As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy states that the City avoid over-concentration of assets in a specific maturity sector, limiting of average maturities of operating fund investments to one year, and avoiding over-concentrated assets in specific instruments other than U.S. Treasury Securities and insured or collateralized certificates of deposit.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

### NOTE 2 - DEPOSITS, INVESTMENTS AND DERIVATIVES - Continued

#### Fair Value Measures

GASB No. 72, "Fair Value Measurement and Application" establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GASB No. 72 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the City's assets at fair value as of September 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Government Securities	\$ <u>5,677,425</u>	\$ <u>          </u>	\$ <u>          </u>	\$ <u>5,677,425</u>
Total assets at fair value	\$ <u>5,677,425</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>5,677,425</u>

#### Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The City made no direct investments in derivatives during the year ended September 30, 2017, and holds no direct investments in derivatives at September 30, 2017.

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 3 - RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS**

Receivables as of September 30, 2017, for the government's individual governmental major funds, Governmental Activities, and Business-Type Activities/Enterprise fund including the applicable allowances for uncollectible accounts are as follows:

	<u>Major Funds</u>		
	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
<b><u>Governmental Funds</u></b>			
Receivables:			
Taxes:			
Property	\$ 126,180	\$ 3,435	\$ 129,615
Sales	516,301		516,301
Mixed beverage	7,712		7,712
Hotel-Motel		203,811	203,811
Franchise fees	50,678		50,678
Other governments	1,551	89	1,640
Customer accounts	17,136	220,004	237,140
Accrued interest	<u>24,595</u>		<u>24,595</u>
Gross receivables	744,153	427,339	1,171,492
Less Allowance for Uncollectibles:			
Property taxes	56,216	484	56,700
Customer accounts	<u>456</u>		<u>456</u>
Net receivables	<u>\$ 687,481</u>	<u>\$ 426,855</u>	<u>\$ 1,114,336</u>
			<u>Total</u>
<b><u>Governmental Activities</u></b>			
Receivables:			
Municipal court			\$ 1,770,414
Less Allowance for Uncollectibles:			
Municipal court			<u>1,093,123</u>
Net receivables			<u>\$ 677,291</u>

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 3 - RECEIVABLES AND UNCOLLECTIBLE ACCOUNTS - Continued**

	<u>Business- Type Activities Enterprise Fund</u>
Receivables:	
Accounts:	
Customers	\$ 286,388
Vendors	132,346
Other	<u>139,476</u>
Gross receivables	558,210
Less Allowance for Uncollectibles:	
Customers	<u>1,360</u>
Net receivables	<u>\$ 556,850</u>

**NOTE 4 - DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES AND UNEARNED REVENUE**

Governmental funds report unearned revenue in connection with receivables for revenues that are considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

As of September 30, 2017, the various components of inflows of resources and unearned revenue reported in the governmental funds were as follows:

	<u>Deferred Inflows of Resources</u>	<u>Unearned Revenue</u>
Governmental Funds:		
Delinquent property taxes receivable (General Fund)	\$ 63,009	\$
Delinquent property taxes receivable (Debt Service Fund)	2,327	
Advance Receipts:		
Franchise taxes		30,439
Bonds		<u>23,791</u>
Total unavailable/unearned revenue from governmental funds	<u>\$ 65,336</u>	<u>\$ 54,230</u>

As of September 30, 2017, the various components of unearned revenue reported in the proprietary funds were as follows:

	<u>Unearned Revenue</u>
Proprietary Funds:	
Unapplied water and sewer	<u>\$ 18,334</u>

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 4 - DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES AND UNEARNED REVENUE - Continued**

**Governmental and Business-Type Activities**

Governmental and business-type activities defer the recognition of pension expense for contributions made from the measurement date (December 31, 2016) to the current year-end of September 30, 2017 and report these as deferred outflows of resources. Governmental and business-type activities also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a deferred inflow of resources. Further, for governmental and business-type activities, like governmental funds, defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of September 30, 2017, the various components of deferred inflows and outflows of resources reported in the governmental and business-type activities were as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<b><u>Governmental Activities</u></b>		
TMRS Deferred Inflows and Outflows:		
Difference in expected and actual experience	\$	\$ 342,723
Changes in assumptions	57,099	
Net difference in projected and actual investment earnings	772,022	605
Pension contributions subsequent to the measurement date	355,682	
TESRS Deferred Inflows and Outflows:		
Net difference in projected and actual investment earnings		31,827
Pension contributions subsequent to the measurement date	<u>24,798</u>	
Totals	<u>\$ 1,209,601</u>	<u>\$ 375,155</u>
		<u>Unearned Revenue</u>
Advance Receipts:		
Franchise taxes		\$ 30,439
Bonds		<u>23,791</u>
Total unavailable/unearned revenue from governmental funds		<u>\$ 54,230</u>

**CITY OF CLUTE**

Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 4 - DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES AND UNEARNED REVENUE - Continued**

**Governmental and Business-Type Activities - continued**

<u>Business-Type Activities</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Gain on refunding, net of amortization	\$ 62,043	\$
TMRS Deferred Inflows and Outflows:		
Difference in expected and actual experience		25,400
Changes in assumptions	4,232	
Net difference in projected and actual investment earnings	57,217	45
Pension contributions subsequent to the measurement date	<u>16,426</u>	<u>          </u>
Totals	<u>\$ 139,918</u>	<u>\$ 25,445</u>
		<u>Unearned Revenue</u>
Advance Receipts:		
Unapplied water and sewer		<u>\$ 18,334</u>

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund balances at September 30, 2017 consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General Fund:		
Special Revenue Funds:		
Streets, drainage & sidewalks fund	\$ 209,255	\$ 750,000
Emergency Medical Service		
Enterprise Fund	<u>209,255</u>	<u>1,200,000</u>
		<u>1,950,000</u>
Special Revenue Funds:		
Streets, Drainage & Sidewalks Fund:		
General fund	750,000	
Emergency Medical Service:		
General Fund	<u>750,000</u>	<u>209,255</u>
		<u>209,255</u>
Enterprise Fund:		
General Fund	<u>1,200,000</u>	<u>          </u>
Total	<u>\$ 2,159,255</u>	<u>\$ 2,159,255</u>

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued**

Interfund transfers for the year ended September 30, 2017 consisted of the following individual fund transfers in and transfers out:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Special Revenue Funds:		
Streets, Drainage and Sidewalks	\$ 1,050,000	\$
Emergency Medical Service	5,000	506,697
Economic Development Corporation	318,596	
Hotel-Motel	95,770	
Enterprise Fund	<u>110,477</u>	
	<u>1,579,843</u>	<u>506,697</u>
Special Revenue Funds:		
Streets, Drainage and Sidewalks:		
General Fund		1,050,000
Emergency Medical Service:		
General Fund	506,697	5,000
Economic Development Corporation:		
General Fund		318,596
Debt Service Fund		313,023
Hotel-Motel:		
General Fund		95,770
Great Texas Mosquito Festival Fund		125,000
Great Texas Mosquito Festival Fund:		
Hotel-Motel Fund	<u>125,000</u>	
	<u>631,697</u>	<u>1,907,389</u>
Debt Service Fund:		
Special Revenue Fund:		
Economic Development Corporation	<u>313,023</u>	
Enterprise Fund:		
General Fund		<u>110,477</u>
Total	<u>\$ 2,524,563</u>	<u>\$ 2,524,563</u>

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 6 - CAPITAL ASSETS**

Capital assets activity for the year ended September 30, 2017 was as follows:

	<u>Restated Balance 10-01-16</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance 09-30-17</u>
<b>Governmental Activities:</b>					
<b>Non-Depreciated Capital Assets:</b>					
Land	\$ 398,660	\$	\$	\$	\$ 398,660
Construction in progress	<u>2,537,384</u>	<u>3,902,132</u>			<u>6,439,516</u>
<b>Total non-depreciated</b>	<u>2,936,044</u>	<u>3,902,132</u>	<u>-0-</u>	<u>-0-</u>	<u>6,838,176</u>
<b>Depreciated Capital Assets:</b>					
Buildings	10,255,705	268,445			10,524,150
Furniture, equipment and vehicles	7,977,249	867,896		194,346	8,650,799
Infrastructure	<u>16,320,821</u>	<u>1,009,240</u>		<u>118,684</u>	<u>17,211,377</u>
<b>Total depreciated</b>	<u>34,553,775</u>	<u>2,145,581</u>	<u>-0-</u>	<u>313,030</u>	<u>36,386,326</u>
<b>Accumulated Depreciation:</b>					
Buildings	3,105,591	210,994			3,316,585
Furniture, equipment and vehicles	5,361,535	613,344		194,346	5,780,533
Infrastructure	<u>5,161,880</u>	<u>501,674</u>		<u>108,230</u>	<u>5,555,324</u>
<b>Total accumulated       depreciation</b>	<u>13,629,006</u>	<u>1,326,012</u>	<u>-0-</u>	<u>302,576</u>	<u>14,652,442</u>
<b>Net depreciated capital assets</b>	<u>20,924,769</u>	<u>819,569</u>	<u>-0-</u>	<u>10,454</u>	<u>21,733,884</u>
<b>Net capital assets</b>	<u>\$23,860,813</u>	<u>\$ 4,721,701</u>	<u>\$ -0-</u>	<u>\$ 10,454</u>	<u>\$28,572,060</u>

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 6 - CAPITAL ASSETS** - Continued

	<u>Balance</u> <u>10-01-16</u>	<u>Additions</u>	<u>Transfers</u>	<u>Retirements</u>	<u>Balance</u> <u>09-30-17</u>
<b>Business-type Activities:</b>					
<b>Non-Depreciated Capital Assets:</b>					
Land	\$ 7,562	\$	\$	\$	\$ 7,562
Construction in progress	<u>1,731,607</u>	<u>1,330,619</u>	<u>( 1,055,201)</u>	<u>          </u>	<u>2,007,025</u>
<b>Total non-depreciated</b>	<u>1,739,169</u>	<u>1,330,619</u>	<u>( 1,055,201)</u>	<u>-0-</u>	<u>2,014,587</u>
<b>Depreciated Capital Assets:</b>					
Buildings	500,000	44,329			544,329
Improvements other than buildings	27,898,359	902,302	1,055,201		29,855,862
Furniture, equipment and vehicles	<u>611,200</u>	<u>174,962</u>	<u>          </u>	<u>15,570</u>	<u>770,592</u>
<b>Total depreciated</b>	<u>29,009,559</u>	<u>1,121,593</u>	<u>1,055,201</u>	<u>15,570</u>	<u>31,170,783</u>
<b>Accumulated Depreciation:</b>					
Buildings	306,998	11,108			318,106
Improvements other than buildings	10,338,722	1,078,123			11,416,845
Furniture, equipment and vehicles	<u>451,138</u>	<u>44,647</u>	<u>          </u>	<u>15,570</u>	<u>480,215</u>
<b>Total accumulated depreciation</b>	<u>11,096,858</u>	<u>1,133,878</u>	<u>-0-</u>	<u>15,570</u>	<u>12,215,166</u>
<b>Net depreciated capital assets</b>	<u>17,912,701</u>	<u>( 12,285)</u>	<u>1,055,201</u>	<u>-0-</u>	<u>18,955,617</u>
<b>Net capital assets</b>	<u>\$19,651,870</u>	<u>\$ 1,318,334</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$20,970,204</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental Activities:</b>	
Administration	\$ 66,181
Public safety	394,174
Sanitation	144,392
Streets and drainage	537,982
Culture and recreation	<u>183,283</u>
<b>Total depreciation expense-governmental activities</b>	<u>\$ 1,326,012</u>
<b>Business-type Activities:</b>	
Water and sewer	<u>\$ 1,133,878</u>
<b>Total depreciation expense-business-type activities</b>	<u>\$ 1,133,878</u>

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 6 - CAPITAL ASSETS - Continued**

**Unexpended Construction Commitments**

The City has entered into contracts for construction as of September 30, 2017 as follows:

	<u>Project Authorization</u>	<u>Expended to Date</u>	<u>Commitment</u>	<u>Required Further Financing</u>
<b>Construction Contracts:</b>				
<b>Governmental Activities:</b>				
Fire Station	\$ 3,992,575	\$ 3,858,487	\$ 134,088	\$
Woodshore development	<u>4,237,285</u>	<u>3,992,370</u>	<u>244,915</u>	<u></u>
Total	<u>\$ 8,229,860</u>	<u>\$ 7,850,857</u>	<u>\$ 379,003</u>	<u>\$ -0-</u>
<b>Business-Type Activities:</b>				
Water line – Barbara Street	\$ 47,450	\$ 34,750	\$ 12,700	\$
BASF Reclaimed Water	<u>1,696,431</u>	<u>1,685,887</u>	<u>10,544</u>	<u></u>
Total	<u>\$ 1,743,881</u>	<u>\$ 1,720,637</u>	<u>\$ 23,244</u>	<u>\$ -0-</u>

**NOTE 7 - EMPLOYEE SICK LEAVE BENEFITS**

The City's sick leave policy provides fifteen paid sick days per year and allows employees to carryover unused sick days to subsequent years. After five years of service, an employee will be paid up to eighty hours for unused sick leave at the time of resignation or termination. For the year ended September 30, 2017, the City had accrued sick leave in the governmental activities for \$ 60,379 and in the business-type activities for \$ 1,511.

The City's vacation policy does not allow unused vacation to carry over from one year to the next. Accordingly, no liability is recorded for accrued vacation.

**NOTE 8 - CONTINGENT LIABILITIES**

The City is contingently liable in respect to lawsuits and other claims in the ordinary course of its operations. The potential settlement (if any) of such contingencies under the budgetary process would require appropriation of revenues yet to be realized and would not materially affect the financial position of the City at September 30, 2017.

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 9 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN**

**A. Plan Description**

The City of Clute participates as one of 860 plans in the nontraditional, join contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com). All eligible employees of the city are required to participate in TMRS.

**B. Benefits Provided**

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the city, within the options available in the state statutes governing TMRS.

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payment options. Member may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

The plan provisions are adopted by the governing body of each city, within the options available in the state statutes governing TMRS. Members in most cities can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. Some cities have elected retirement eligibility with 25 years of service regardless of age. Most plans also provide death benefits and all provide disability benefits. Effective January 1, 2002, members are vested after 5 years, unless a city opted to maintain 10-year vesting. Members may work for more than one TMRS city during their career. If a member is vested in one TMRS city, he or she is immediately vested upon employment with another TMRS city. Similarly, once a member has met the eligibility requirements for retirement in a TMRS city, he or she is eligible in other TMRS cities as well.

***Employees covered by benefit terms.*** At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	52
Inactive employees entitled to but not yet receiving benefits	71
Active employees	86
	<hr/> 209

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

### NOTE 9 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN - Continued

#### C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees of the City of Clute were required to contribute 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the City of Clute were 10.15% and 11.04% in the calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$ 409,449, and were equal to the required contributions.

#### D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

#### ***Actuarial Assumptions***

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions.

Inflation	2.50% per year
Overall payroll growth	3.50% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014, first used in the December 31, 2016 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2016 valuation.

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 9 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN - Continued**

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long term-expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Target Allocation</u>	<u>Expected Net Real Rate of Return</u>
Equities:		
Domestic	17.5%	4.80%
International	17.5%	6.05%
Fixed Income:		
Core	30.0%	1.50%
Non-Core	10.0%	3.50%
Real Return	5.0%	1.75%
Real Estate	10.0%	5.25%
Absolute Return	5.0%	4.25%
Private Equity	5.0%	8.50%
Total	100.0%	

***Discount Rate***

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefits payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

### NOTE 9 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN - Continued

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 12-31-15	\$ 19,125,603	\$ 17,977,538	\$ 1,148,065
Changes for the Year:			
Service cost	686,526		686,526
Interest	1,274,557		1,274,557
Difference between expected and actual experience	( 274,645)		( 274,645)
Contributions - employer		409,449	( 409,449)
Contributions - employee		287,766	( 287,766)
Net investment income		1,214,297	( 1,214,297)
Benefit payment, including refunds of employee contributions	( 1,173,072)	( 1,173,072)	-0-
Administrative expense		( 13,721)	13,721
Other changes		( 739)	739
Net changes	513,366	723,980	( 210,614)
Balance at 12-31-16	\$ 19,638,969	\$ 18,701,518	\$ 937,451

Sensitivity of the net pension liability to changes in the discount rate.

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what's the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease In Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase In Discount Rate (7.75%)
City's Net Pension Liability	\$ 3,765,279	\$ 937,451	\$( 1,365,461)
Changes for the Year:			

**CITY OF CLUTE**

Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 9 - TEXAS MUNICIPAL RETIREMENT SYSTEM PENSION PLAN - Continued**

***Pension Plan Fiduciary Net Position***

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at [www.tmrs.com](http://www.tmrs.com).

**E. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2017, the city recognized pension expense of \$ 491,623.

At September 30, 2017, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$	\$ 368,124
Changes in assumptions	61,331	
Difference between projected and actual investment earnings	829,239	650
Contributions subsequent to the measurement date	<u>372,108</u>	<u></u>
Total	<u>\$ 1,262,678</u>	<u>\$ 368,775</u>

\$ 372,108 reported as deferred outflows of resources related to pensions relating from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended September 30,	
2017	\$ 95,791
2018	\$ 192,472
2019	\$ 233,697
2020	\$ ( 165)
2021	\$ -0-
Thereafter	\$ -0-

## CITY OF CLUTE

Clute, Texas

### NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

#### NOTE 10 - OPEB-SUPPLEMENTAL DEATH BENEFITS PLAN

##### OPEB-Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death); retired employees are insured for \$ 7,500; this coverage is an "other postemployment benefit," or OPEB .

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employee's entire careers.

The City's contributions to the TMRS SDBF for the years ended September 30, 2017, 2016, and 2015 were \$ 8,294, \$ 7,816, and \$ 7,088, respectively, which equaled 100% of the required contributions each year.

Financial reports that include financial statements and supplementary information are publicly available by writing or calling the following: Texas Municipal Retirement System, PO Box 149153, Austin, TX 78714-9153, (877) 634-8595.

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 11 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM PENSION PLAN**

**A. Plan Description**

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system (the "System") established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. Direct financial activity for the System is classified in the financial statements as pension trust funds. Of the nine member Board of Trustees, at least five trustees must be active members of the pension system, one of whom must represent emergency medical services personnel. One trustee may be a retiree of the pension system and three trustees must be persons who have experience in the fields of finance, securities investment, or pension administration. At August 31, 2016, there were 199 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2016, the pension system membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,167
Terminated Members Entitled to Benefits but Not Yet Receiving Them	2,200
Active Participants (Vested and Non-vested)	3,634

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees authority to establish vested requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

### NOTE 11 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM PENSION PLAN - Continued

#### B. Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$ 36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

The state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2016, the Part Two contributions were established by the board to be 2% of the Part One contributions beginning September 1, 2017.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased in over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who are pensioners when their respective departments merged with the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 11 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM PENSION PLAN** - Continued

**C. Contributions**

The contribution requirement per active emergency services personnel members per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2016, the total contributions of \$ 3,463,603 were paid into TESRS by the political subdivisions served by member volunteer emergency services personnel. The state appropriated \$ 1,583,825 for the fiscal year ended August 31, 2016. For the year ended August 31, 2016, the total contribution of the City was \$ 25,375.

The purpose of the biennial actuarial valuation is to determine if the contribution arrangement is adequate to pay the benefits that are promised. Actuarial assumptions are disclosed in subsection D below.

The actuarial valuation as of August 31, 2016 stated that TESRS has an adequate contribution arrangement for the benefit provisions recognized in the valuation based on the expected total contributions, including the expected contributions both from the governing body of each participating department and from the state. The expected contributions from the state are state appropriations equal to (1) the maximum annual contribution (one-third of all contributions to TESRS by governing bodies of participating departments in a year) as needed in accordance with state law governing TESRS and (2) approximately \$ 725,000 each year to pay for part of the System's administrative expenses. On August 31, 2016, the actuarial liabilities exceeded the actuarial assets by \$ 29,128,103.

**D. Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of August 31, 2016, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

***Actuarial Assumptions***

The Total Pension Liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50% per year
Salary increases	N/A
Investment Rate of Return	7.75%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2018 by scale AA.

**CITY OF CLUTE**

Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 11 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM PENSION PLAN - Continued**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation (3.50%). In addition, the final 7.75% assumption reflected a reduction of 0.20% for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Net Real Rate of Return</u>
Equities:		
Large cap domestic	32%	5.2%
Small cap domestic	10%	5.8%
Developed international	21%	5.5%
Emerging markets	6%	5.4%
Master limited partnerships	5%	7.1%
Fixed Income:		
Domestic	21%	1.4%
International	5%	1.6%
Cash	0%	0.0%
Total	100%	
Weighted average		4.45%

***Discount Rate***

The discount rate used to measure the total pension liability was 7.75%. No projection of cash flows was used to determine the discount rate because the August 31, 2016 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 11 - TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM PENSION PLAN - Continued**

***Sensitivity of the Net Pension Liability to Changes in the Discount Rate***

The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	1% Decrease In Discount Rate (6.75%)	Discount Rate (7.75%)	1% Increase In Discount Rate (8.75%)
City's Net Pension Liability	\$ <u>361,286</u>	\$ <u>213,398</u>	\$ <u>119,171</u>

**NOTE 12 - INDUSTRIAL DISTRICT CONTRACT**

The City of Clute in conjunction with the Cities of Lake Jackson and Freeport has entered into a contract with the Dow Chemical Company, BASF Corporation, and the Brock interests. The Cities gave consideration in the two following forms:

1. The Cities have agreed to refrain from initiating proceedings for the annexation of all or part of land described and outlined in the contract as Industrial Districts.
2. Respective codes, ordinances and laws of the Cities pertaining to building or construction, zoning, electrical, plumbing, health and safety regulations, air and water quality regulations and supervision; will not be applicable to the Districts.

The two corporations have in turn given consideration to the Cities in the following two forms:

1. Each City is to receive a specified sum of money on an annual basis over the terms of the contract.
2. The Cities will not be expected to provide within the Districts the ordinary municipal services such as water, sewage disposal, drainage, police and fire protection except in the event of an emergency.

During the year ended September 30, 2011, a new industrial district contract was negotiated. The term of this contract is for fifteen (15) years from December 31, 2011, through December 1, 2026. Contract payments are payable in semi-annual installments each June 30 and December 31. The amount of the payments are to be calculated each year based upon the higher percentage growth of the most recent annual Consumer Price Index or a value based formula (Brazosport Industrial District assessed value less abatements granted by Brazoria County/\$ 100 x \$ 0.55 @ 50% or 27.5 cents). Total industrial district revenues received during the year ended September 30, 2017 amounted to \$ 1,499,898.

## CITY OF CLUTE

Clute, Texas

### NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

#### NOTE 13 - JOINT VENTURE

The City was involved in a joint venture with the City of Richwood for the construction of a sewer plant which provides service to both cities. The joint venture was substantially completed and placed in service as of September 30, 1987. This project was funded by a federal EPA construction grant for waste treatment plant in which the federal portion of qualifying expenditures was 75 percent and the cities portion was 25 percent. The City's portion of the 25 percent of qualifying expenditures and all non-qualifying expenditures was 75 percent. The City of Richwood was responsible for the remaining 25 percent.

In addition, the City is party to an agreement with the City of Richwood to share costs associated with the operation of the sewer treatment plant. The percentage for sharing the operating expenses (excludes capital outlay) is determined based upon metered flow. For the year ended September 30, 2017 the City of Richwood's portion of these expenses was determined to be 18 percent, which amounted to \$ 263,310.

Further, the City of Richwood shares in 25 percent of maintenance costs (including capital acquisitions), which amounted to \$ 54,378 for the year ended September 30, 2017. The City maintains both budgetary and accounting responsibility over these expenses and disbursements and, therefore, has reported intergovernmental revenue, from the City of Richwood, in the amount of \$ 317,688 within the Enterprise Fund for the year ended September 30, 2017.

The City is also in agreement with the City of Richwood to provide Emergency Medical Service for the residents of Richwood. The City is to receive \$ 18,750 each quarter from the City of Richwood. For the year ended September 30, 2017, the City received \$ 75,000 from the City of Richwood.

During the year ended September 30, 2003, the City began a joint venture with the City of Freeport, City of Lake Jackson, and the SPCA for an animal shelter. The shelter is located in Lake Jackson and provides programs for the claiming and adoption of lost or abandoned animals for the three cities. The City and Freeport contributed \$ 150,000 each and the SPCA contributed \$ 250,000 for a total of \$ 550,000 to Lake Jackson for the design, construction, and furnishing of the \$ 1,100,000 facility. The term of the agreement is from March 1, 2003 through February 28, 2023. During the year ended September 30, 2017, the City paid \$ 77,957 to the shelter for their portion to cover the administrative operating expenses.

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 14 - OPERATING LEASES**

**Lessee**

The city is committed under leases for the following:

- 1) The City is committed under a lease for the use of 2.5 acres of land being utilized as a gun range for the Police Department. The lease is for the period October 1, 2013 through September 30, 2018. Payments are due on October 1<sup>st</sup> each year in the amount of \$ 2,400.
- 2) On August 15, 2010, the City leased six copiers and paid \$ 594.89 per month for sixty-three months from August 20, 2010 through October 20, 2015. On July 20, 2015, the City terminated this lease and made its final payment. On August 15, 2015, the City leased six copiers and paid \$ 740 per month for thirty-six months from August 14, 2015 through July 15, 2018.
- 3) On July 10, 2012, the City leased two copiers and pays \$ 445.38 per month for sixty months from August 15, 2012 through July 15, 2017.

For accounting purposes, these leases are considered operating leases.

Minimum future rentals to be paid on operating leases, as of September 30, 2017, for each of the next five years and in the aggregate are as follows:

<u>Year Ended</u> <u>September 30,</u>	<u>2017</u>
2018	\$ <u>9,800</u>
	\$ <u>9,800</u>

Gross rental expenditures for operating leases, including month-to-month for the year ended September 30, 2017 was \$ 25,999.

**Lessor**

On February 26, 2010, the City's Enterprise Fund entered into an inter-local waste water transmission line lease agreement, an operating lease, with the City of Richwood. The lease requires quarterly payments on January 15, April 15, July 15, and October 15 of each year from 2010 to 2025. The lease requires total payments of \$ 2,413,627 with varying quarterly payments. During the year ended September 30, 2017, the business-type activities reported revenues in the amount of \$ 135,592. The following are the minimal lease payments from Richwood required under this lease:

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 14 - OPERATING LEASES - Continued**

**Lessor - continued**

<u>Year Ending September 30,</u>	<u>Total Requirements</u>
2018	\$ 137,252
2019	139,087
2020	140,987
2021	142,953
2022	144,989
2023-2026	<u>485,927</u>
Total	<u>\$ 1,191,195</u>

**NOTE 15 - LONG-TERM DEBT**

**General Long-Term Debt**

On October 20, 2005, the City issued \$ 3,500,000 of Series 2005 Certificates of Obligation Bonds. The bonds were for the acquisition, construction and improvements of certain public works.

On November 14, 2013, the City issued \$ 9,500,000 of Series 2013 Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation Bonds. The bond proceeds were split between general long-term debt (\$ 4,500,000) and the proprietary fund debt (\$ 5,000,000). Proceeds within the governmental funds were for the purchase of land and construction of a new fire station, construction of new streets and drainage improvements, and landscaping.

On September 22, 2016, the City issued \$ 1,725,000 of Series 2016 Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation Bonds. The proceeds, within the governmental funds, were to purchase capital equipment.

The certificates of obligation bonds payable at September 30, 2017 is summarized as follows:

Purpose	Interest Rate	Series Dates			Bonds Outstanding
	(%)	Issued	Maturity	Callable	09-30-17
Certificate Obligation Bonds					
Series 2005	3.920	2005	2025	2007	\$ 1,815,000
Certificate Obligation Bonds					
Series 2013	1.000 - 4.000	2013	2033	2024	3,755,000
Certificate Obligation Bonds					
Series 2016	1.000 - 4.000	2016	2036	2036	<u>1,620,000</u>
					<u>\$ 7,190,000</u>

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 15 - LONG-TERM DEBT - Continued**

**General Long-Term Debt - continued**

Certificate of obligation bond transactions for the year ended September 30, 2017 were as follows:

	<u>2017</u>
Bonds outstanding, October 1, 2016	\$ 7,670,000
Matured	<u>( 480,000)</u>
Bonds outstanding, September 30, 2017	<u>\$ 7,190,000</u>

Aggregate maturities of certificate of obligation bonds for the years subsequent to September 30, 2017 are as follows:

	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 490,000	\$ 237,271	\$ 727,271
2019	505,000	223,726	728,726
2020	520,000	209,691	729,691
2021	530,000	193,212	723,212
2022	555,000	175,688	730,688
2023-2027	2,435,000	591,564	3,026,564
2028-2032	1,610,000	241,435	1,851,435
2033-2036	<u>545,000</u>	<u>26,925</u>	<u>571,925</u>
	<u>\$ 7,190,000</u>	<u>\$ 1,899,512</u>	<u>\$ 9,089,512</u>

Since property taxes are not utilized for the payment of the Certificate of Obligation, Series 2005, the City is not required to maintain a Debt Service Fund for the Series 2005. The Economic Development Corporation (a special revenue fund) transferred funds in the amount of \$ 318,596 to the General Fund to assist in the payment of the principal, interest, and fees of the Certificate of Obligation, Series 2005.

Although the Certificate of Obligation, Series 2013 bonds are not paid by property taxes, the City chose to account for the payment of these bond within a debt service fund. The Economic Development Corporation (a special revenue fund) transferred funds in the amount of \$ 313,023 to the Debt Service Fund for the payment of the principal, interest, and fees of the Certificate of Obligation, Series 2013.

**Proprietary Fund Debt**

On August 19, 2009, the City issued \$ 3,000,000 of Series 2009 Combination Tax and Limited Pledge Revenue Certificates of Obligation Bonds. The bonds were acquired to provide improvements to the waterworks and sewer system and the payment of professional services related thereto, including costs of issuing the certificates.

On November 14, 2013, the City issued \$ 9,500,000 of Series 2013 Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation Bonds. The bond proceeds were split between general long-term debt (\$ 4,500,000) and the proprietary fund debt (\$ 5,000,000). Proceeds within the proprietary fund were for improvements to the City's utility system.

# CITY OF CLUTE

Clute, Texas

## NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

### NOTE 15 - LONG-TERM DEBT - Continued

#### Proprietary Fund Debt - continued

On August 9, 2017, the City issued \$ 1,635,000 of Unlimited Tax Refunding Bonds, Series 2017, for the refunding of \$ 1,485,000 of Combination Tax and Limited Pledge Revenue Certificates of Obligation Bonds, Series 2009. The City placed the proceeds of the refunding issue in an escrow account. The escrow fund is irrevocably pledged to the payment of principal and interest on the issues being refunded. The difference between the cash flow to service the new debt and complete the refunding at the date of the refunding was \$ 252,034. The economic gain resulting from the transaction was \$ 213,913. The outstanding balance of the defeased bonds at September 30, 2017 was \$ 1,485,000 and the balance held in escrow was \$ 1,576,630.

The certificates of obligation bonds payable at September 30, 2017 is as follows:

Purpose	Interest Rate (%)	Series Dates			Bonds Outstanding 09-30-17
		Issued	Maturity	Callable	
Certificate Obligation Bonds					
Series 2009	2.000 – 5.750%	2009	2029	2019	\$ 575,000
Certificate Obligation Bonds					
Series 2013	1.000 – 4.000%	2013	2033	2024	4,170,000
Certificate Obligation Bonds					
Series 2017	4.000%	2017	2029	2024	<u>1,635,000</u>
					<u>\$ 6,680,000</u>

Certificate of obligation bond transactions for the year ended September 30, 2017 were as follows:

	<u>2017</u>
Bonds outstanding, October 1, 2016	\$ 6,560,000
Issued	1,635,000
Defeased	( 1,485,000)
Matured	<u>( 330,000)</u>
Bonds outstanding, September 30, 2017	<u>\$ 6,380,000</u>

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 15 - LONG-TERM DEBT - Continued**

**Proprietary Fund Debt - continued**

Aggregate maturities of certificate of obligation bonds for the years subsequent to September 30, 2017 are as follows:

	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 375,000	\$ 189,999	\$ 564,999
2019	380,000	181,170	561,170
2020	390,000	170,902	560,902
2021	400,000	157,935	557,935
2022	410,000	146,063	556,063
2023-2027	2,200,000	562,154	2,762,154
2028-2032	1,895,000	247,893	2,142,893
2033	<u>330,000</u>	<u>13,200</u>	<u>343,200</u>
	<u>\$ 6,380,000</u>	<u>\$ 1,669,316</u>	<u>\$ 8,049,316</u>

**Changes in Long-Term Liabilities**

Long-term liability for the governmental activities and the business-type activities for the year ended September 30, 2017:

	<u>Balance 10-01-16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 09-30-17</u>	<u>Due Within One Year</u>
<b>Governmental Type Activities:</b>					
General obligation bonds	\$ 7,670,000	\$	\$ 480,000	\$ 7,190,000	\$ 490,000
Chapter 380 agreement	3,700,000		96,338	3,603,662	
Net Pension Obligation:					
TMRS	1,067,450	2,110,291	2,306,373	871,368	
TESRS	159,361	56,689	47,967	168,083	
Compensated absences	60,738	161,452	161,811	60,379	60,379
Component on Bonded Debt:					
Premium on bonds	177,791		10,441	167,350	10,441
Accrued interest on bonds	<u>44,767</u>	<u>39,837</u>	<u>44,767</u>	<u>39,837</u>	<u>39,837</u>
<b>Total governmental activities</b>	<u>12,880,107</u>	<u>2,368,269</u>	<u>3,147,697</u>	<u>12,100,679</u>	<u>600,657</u>
<b>Business Type Activities:</b>					
General obligation bonds	6,560,000	1,635,000	1,815,000	6,380,000	375,000
Net pension obligation (TMRS)	80,615	156,402	170,934	66,083	
Compensated absences	1,520	7,609	7,618	1,511	1,511
Component on Bonded Debt:					
Premiums on bonds	158,916		58,976	99,940	11,163
Accrued interest on bonds	<u>41,124</u>	<u>31,491</u>	<u>41,124</u>	<u>31,491</u>	<u>31,491</u>
<b>Total business type activities</b>	<u>6,842,175</u>	<u>1,830,502</u>	<u>2,093,652</u>	<u>6,579,025</u>	<u>419,165</u>
<b>Total government (net)</b>	<u>\$ 19,722,282</u>	<u>\$ 4,198,771</u>	<u>\$ 5,241,349</u>	<u>\$ 18,679,704</u>	<u>\$ 1,019,822</u>

## CITY OF CLUTE

Clute, Texas

### NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

#### NOTE 16 - CHAPTER 380 PERFORMANCE AGREEMENTS

The City has established a program in accordance with Article 3, Section 52-a of the Texas Constitution, and Chapter 380 of the Texas Local Government Code (hereafter "Chapter 380"); under which the City has elected its authority to use public funds for the public purposes of promoting local economic development and stimulating business and commercial activity within the City. Further, the City recognizes the positive economic impact the Projects will bring to the City through timely development and diversification of the economy, elimination of unemployment and underemployment through the production of new jobs, the attraction of new businesses and the additional ad valorem taxes, sales and use taxes, and utility revenues generated by the Projects for the City.

Section 10.17 of the Home Rule Charter of the City requires that at least forty (40%) percent of all monies, funds and revenues derived from and as a result of the local sales and use tax shall be used and expended by the City for the construction of new storm sewers, new sidewalks, new curbs and gutters, and for the construction of new streets in conformance with the ordinances of the City, excluding the cost of routine maintenance and the purchase of equipment. In addition, Section 14.02 of the Home Rule Charter of the City authorizes the City Council thereof to cooperate in every manner with persons interested in the development of property within or beyond its corporate limits, but makes such cooperation permissive and limits it to extension of utilities or services to a privately owned subdivision, and Subsection (b), Item (3) of Section 98-38 of the Code of Ordinances of the City allows the City to finance street improvements by the Real Estate Lien note of the owner of abutting property which is secured by a voluntary contract lien.

The City, in consideration of the design, timely construction and development of the Projects, which will bring additional sales tax and ad valorem tax revenues to the City, and additional jobs resulting from the construction of the Projects, the City desires to enter into these Agreements pursuant to Chapter 380 and other applicable laws for the development of municipal infrastructure as an economic incentive for the Developer to develop and construct the Projects.

#### College Park Subdivision - Section 7A

On July 28, 2017 (Effective Date), the City entered into a Chapter 380 Performance Agreement (the "Agreement") with Woodland Development, LLC a Texas Limited Liability Company (the "Developer") as follows:

- The Developer owns certain tracts of land totaling twenty point four three five (20.435) acres within the corporate limits of the City (the "Property") for the development of the College Park Subdivision – Section 7A development (the "Project"); and,
- The Developer has agreed to construct certain public works and improvements including public streets and alleys, public access easements, drainage systems, water, wastewater, and storm drain systems, detention ponds, landscaping, and other public facilities in accordance with the terms of the Agreement and construct the qualified public improvements no later than December 31, 2018; and,

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 16 - CHAPTER 380 PERFORMANCE AGREEMENTS - Continued**

**College Park Subdivision - Section 7A - continued**

- The City, pursuant to its Economic Development Authority, agreed to provide a non interest bearing construction loan (a maximum of \$ 1,450,000 of which may only be spent for the construction of new storm sewers, new sidewalks, new curbs and gutters, and new streets) to the Developer to finance the construction of the Public Improvements, to be evidenced by a Real Estate Lien Note, guaranteed by the owners of the Developer, and secured further by a Deed of Trust for all twenty point four three five (20.435) acres of land in the Project; and,
- The Developer agreed to sub-divide the real property into sixty-seven (67) building lots and to repay the City \$ 22,500 or a sum equal to seventy-five percent (75%) of the sales price of each lot, provided, however any of the principal not so repaid shall be due and payable in full in four years (1,460 days) after August 13, 2013 (the date the City accepted the Project as completed).

During the year ended September 30, 2017, the City adopted a resolution and advanced \$ 1,450,000 (\$ 750,000 from the Streets, Drainage and Sidewalk Special Revenue Fund and \$ 700,000 from the Water and Sewer Enterprise Fund) to the Chapter 380 Fund (Sub-Fund of the General Fund) for purposes of funding the Project. As of September 30, 2017, the City had funded \$ 207,950 of the construction loan to the Developer and the Developer had repaid \$ -0- from the sale of lots leaving a construction loan balance of \$ 207,950.

**Woodshore Development**

On February 28, 2013 (Effective Date), the City entered into a Chapter 380 Performance Agreement (the "Agreement") with DHK Clute, LLC a Texas Limited Liability Company (the "Developer") as follows:

- The Developer owns certain tracts of land within the corporate limits of the City, and has proposed a new mixed-use planned community development containing approximately two hundred and five (205) acres (the "Property") to be constructed by the Developer, including public improvements to be constructed by the City, and consisting of approximately two hundred seventy-seven (277) home sites, thirty-seven (37) townhome sites, and 15.8 acres of commercial acreage (the "Project"), and the Project start date shall be no later than July 31, 2013 and the Project Completion date shall be no later than December 31, 2025; and,
- The Developer has obtained the rights to purchase the remaining property within the Project on or before May 20, 2015; and,
- The Developer will develop the Property in six platted residential Sections and additional platted commercial Sections, and has agreed to dedicate in the final plat, all right-of-ways and easements to be used for the construction of certain public works and improvements by the City and including public streets and alleys, public access easements, drainage systems, water, wastewater, and storm drain systems, detention ponds, and other public facilities which must be developed to serve the Project, a portion of which will be reimbursed by the Developer to the City; and,
- The City's participation in the development will be defined on a section by section basis, which will limit the City's liability to funding the qualified public improvements; and,

**CITY OF CLUTE**  
Clute, Texas

**NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

**NOTE 16 - CHAPTER 380 PERFORMANCE AGREEMENTS - Continued**

**Woodshore Development** - continued

- The qualified public improvements shall be constructed by the City with total funding of improvements not to exceed seven million five hundred sixty-five thousand one hundred and sixty-three dollars (\$ 7,565,163), and within easements or dedicated rights of way to which Lender has subordinated the liens. In addition, at no time will the City's total net contribution for the improvements for the Project exceed four million two hundred thirty seven thousand two hundred eighty-five dollars (\$ 4,237,285). Further, the City agrees to fund one million eight hundred thousand dollars (\$ 1,800,000) of qualified public improvements cost (total net contribution), and,
- The Developer shall reimburse the City up to five million seven hundred sixty-five thousand one hundred sixty-three dollars (\$ 5,765,163) for costs associated with the City's qualified public improvements. The Developer shall reimburse when residential lots are sold (1% of the sales price for payment of closing costs, 10% of sales price will be retained for payment of Developer costs, and, 89% of sales price (remaining funds) 90% to lender and 10% of remaining funds plus any amount not due lender will be paid to the City) and when commercial land is sold (7% of the sales price for payment of closing costs, 10% of sales price will be retained for payment of Developer costs, and, 83% of sales price (remaining funds) 95% to lender and 5% of remaining funds plus any amount not due lender will be paid to the City), however any of the principal not so repaid shall be due and payable in full in four years (1,460 days) after the completion of the qualified public improvements.

During the year ended September 30, 2013, the City adopted a resolution to advance up to \$ 4,237,285 (\$ 1,500,000 from the Streets, Drainage and Sidewalk Special Revenue Fund, \$ 500,000 from the Water and Sewer Enterprise Fund, \$ 2,000,000 from the General Fund (Equipment Replacement Sub-Fund), and \$ 237,285 from the General Fund (Operating Sub-Fund) to the Chapter 380 Fund Capital Project Fund for purposes of funding the Project).

During the year ended September 30, 2014, the City funded the \$ 1,800,000 of qualified public improvement costs. As of September 30, 2015, the City advanced a total of \$ 4,588,831 for qualified public improvements and a total of \$ 564,077 had been received from the developer from the sale of lots. During the year ended September 30, 2017, the City advanced an additional \$ 250,000 for qualified public improvements and the City received \$ 282,384 in payments from the developer from the sale of lots. As of September 30, 2017, there is a note receivable balance of \$ 3,992,370.

**Kroger Development**

On June 26, 2014 the City entered into a Chapter 380 Performance Agreement (the "Agreement") with SEC Oyster Creek/Dixie, LTD, a Texas Limited Partnership (the "Developer") as follows:

- The City agrees to pay the Developer a total of \$ 3,700,000 in the form of annual payments made from the annual sales tax collected by the Developer and an annual rebate of property taxes collected from the property for a period of ten years.

## CITY OF CLUTE

Clute, Texas

### NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended September 30, 2017

#### NOTE 16 - CHAPTER 380 PERFORMANCE AGREEMENTS - Continued

##### Kroger Development - continued

- The City's annual payment from sales tax collections will be based on 100% of sales tax which is collected in excess of a base sales tax amount of \$ 1,049,806 annually, amended to \$ 250,000, see below.
- The property tax rebate portion of the payment will be calculated annually based on the actual property taxes collected from all tenants on the property.
- At the end of the 10 year period the City agrees to pay any deficit in total aggregate payments per this agreement which is less than \$ 3,700,000. The City will have one year following the 10 year term to pay any remaining balance.
- The City agrees to pay up to \$ 200,000 for the construction of traffic lights at this same location.
- The City also agrees to pay \$ 50,000 for sidewalks which are located at the vicinity of the traffic light and the Developer's property.

On June 11, 2015 the City amended the Chapter 380 Performance Agreement (the "Agreement") with SEC Oyster Creek/Dixie, LTD, a Texas Limited Partnership (the "Developer") as follows:

- The City's "Annual Sales Tax Collected at the Project" is defined as (i) the actual amount of the 0.6% general sales and use taxes authorized by the Texas Tax Code and received by the City for sales at the project plus (ii) the actual amount of the 0.5% economic development sales tax collected and received by the Economic Development Corporation (EDC) for sales at the project minus (iii) the Original Super Store Sales Tax, defined as \$ 250,000. The EDC agrees to pay the economic development sales tax as provided above and the City agrees to make payment of the economic development sales tax on behalf of the EDC.

During the year ended September 30, 2016 the City has funded \$ 200,000 for the construction of the traffic lights only. As of September 30, 2017 \$ 96,338 has been funded toward the \$ 3,700,000 sales tax commitment. The \$ 3,700,000 has been recorded in governmental activities as a long term asset and liability and has a balance of \$ 3,603,662 as of September 30, 2017.

#### NOTE 17 - TAX ABATEMENTS

The City has not entered into any property tax abatement agreements with local businesses. The City has worked with local businesses through their Industrial District Contracts (see Note 12) and Chapter 380 Agreements (Note 16). Should the City enter into any tax abatement agreements, the City Council must first approve the agreements.

## **CITY OF CLUTE**

Clute, Texas

### **NOTES TO THE FINANCIAL STATEMENTS**

For The Year Ended September 30, 2017

#### **NOTE 18 - RISK POOL PARTICIPATION**

The City is a participant in the Texas Municipal League Intergovernmental Risk Pool for coverage of liability, property and worker's compensation claims. The City pays annual premiums to the pool for the coverage stated. The agreement with the Texas Municipal League Intergovernmental Risk Pool requires the pool to be self-sustaining. Therefore, the City's exposure for claims is designed to be limited to their deductible.

#### **NOTE 19 - EVALUATION OF SUBSEQUENT EVENTS**

The City has evaluated subsequent events through January 23, 2018, the date which the financial statements were available to be issued.

***REQUIRED SUPPLEMENTARY INFORMATION***

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND**

For the Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Ad valorem taxes	\$ 2,744,307	\$ 2,744,307	\$ 2,657,508	\$( 86,799)
Sales tax	1,378,040	1,378,040	1,172,145	( 205,895)
Other taxes	605,000	605,000	614,834	9,834
Industrial district	1,497,100	1,497,100	1,499,898	2,798
Intergovernmental revenues	2,000	2,000	11,990	9,990
Revenue producing facilities	1,580,000	1,580,000	1,578,936	( 1,064)
Fines and fees	474,690	474,690	500,990	26,300
Licenses and fees	153,500	153,500	259,179	105,679
Investment income	102,220	102,220	( 15,182)	( 117,402)
Miscellaneous	152,450	152,450	170,388	17,938
<b>Total revenues</b>	<b>8,689,307</b>	<b>8,689,307</b>	<b>8,450,686</b>	<b>( 238,621)</b>
<b>Expenditures:</b>				
Current:				
Administration	884,091	884,091	788,936	95,155
Public safety	3,960,295	3,960,295	3,783,228	177,067
Sanitation	1,701,291	1,701,291	1,713,056	( 11,765)
Service center	344,828	344,828	340,444	4,384
Streets and drainage	918,286	918,286	696,538	221,748
Culture and recreation	915,382	915,382	875,176	40,206
Capital outlay	5,000,000	5,000,000	3,852,953	1,147,047
Debt Service:				
Principal retirement	190,000	301,136	286,338	14,798
Interest and fiscal charges	78,596	78,596	78,596	-0-
<b>Total expenditures</b>	<b>13,992,769</b>	<b>14,103,905</b>	<b>12,415,265</b>	<b>1,688,640</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>( 5,303,462)</b>	<b>( 5,414,598)</b>	<b>( 3,964,579)</b>	<b>1,450,019</b>
<b>Other Financing Sources (Uses):</b>				
Proceeds from sale of capital assets	25,000	25,000	11,098	( 13,902)
Transfers in	597,819	1,597,819	1,579,843	( 17,976)
Transfers out	( 551,497)	( 418,274)	( 506,697)	( 88,423)
<b>Total other financing sources (uses)</b>	<b>71,322</b>	<b>1,204,545</b>	<b>1,084,244</b>	<b>( 120,301)</b>
<b>Change in fund balances</b>	<b>( 5,232,140)</b>	<b>( 4,210,053)</b>	<b>( 2,880,335)</b>	<b>1,329,718</b>
<b>Fund balance, beginning</b>	<b>11,901,095</b>	<b>11,901,095</b>	<b>11,901,095</b>	<b>-0-</b>
<b>Fund balance, ending</b>	<b>\$ 6,668,955</b>	<b>\$ 7,691,042</b>	<b>\$ 9,020,760</b>	<b>\$ 1,329,718</b>

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL  
MAJOR SPECIAL REVENUE FUND (STREETS, DRAINAGE AND SIDEWALK)**

For the Year Ended September 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Sales tax	\$ 918,691	\$ 918,691	\$ 781,430	\$( 137,261)
Intergovernmental revenues	250,000	250,000	162,235	( 87,765)
Investment income	<u>19,000</u>	<u>19,000</u>	<u>8,521</u>	<u>( 10,479)</u>
Total revenues	<u>1,187,691</u>	<u>1,187,691</u>	<u>952,186</u>	<u>( 235,505)</u>
Expenditures:				
Current:				
Capital outlay	<u>925,000</u>	<u>925,000</u>	<u>515,128</u>	<u>409,872</u>
Total expenditures	<u>925,000</u>	<u>925,000</u>	<u>515,128</u>	<u>409,872</u>
Excess of revenues over expenditures	<u>262,691</u>	<u>262,691</u>	<u>437,058</u>	<u>174,367</u>
Other Financing Sources (Uses):				
Transfers out	( 50,000)	( 1,050,000)	( 1,050,000)	-0-
Total other financing sources (uses)	<u>( 50,000)</u>	<u>( 1,050,000)</u>	<u>( 1,050,000)</u>	<u>-0-</u>
Change in fund balance	212,691	( 787,309)	( 612,942)	174,367
Fund balance, beginning	<u>3,970,593</u>	<u>3,970,593</u>	<u>3,970,593</u>	<u>-0-</u>
Fund balance, ending	<u>\$ 4,183,284</u>	<u>\$ 3,183,284</u>	<u>\$ 3,357,651</u>	<u>\$ 174,367</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL  
MAJOR SPECIAL REVENUE FUND (ECONOMIC DEVELOPMENT CORPORATION)  
For the Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Sales tax	\$ 1,148,366	\$ 1,148,366	\$ 976,788	\$( 171,578)
Investment income	<u>47,100</u>	<u>47,100</u>	<u>( 15,385)</u>	<u>( 62,485)</u>
Total revenues	<u>1,195,466</u>	<u>1,195,466</u>	<u>961,403</u>	<u>( 234,063)</u>
Expenditures:				
Current:				
Administration	20,000	20,000		20,000
Streets and drainage	340,000	340,000	10,442	329,558
Capital outlay	<u>21,462</u>	<u>21,462</u>		<u>21,462</u>
Total expenditures	<u>381,462</u>	<u>381,462</u>	<u>10,442</u>	<u>371,020</u>
Excess of revenues over expenditures	<u>814,004</u>	<u>814,004</u>	<u>950,961</u>	<u>136,957</u>
Other Financing Sources (Uses):				
Transfers out	<u>( 715,709)</u>	<u>( 631,619)</u>	<u>( 631,619)</u>	<u>-0-</u>
Total other financing sources (uses)	<u>( 715,709)</u>	<u>( 631,619)</u>	<u>( 631,619)</u>	<u>-0-</u>
Change in fund balance	98,295	182,385	319,342	136,957
Fund balance, beginning	<u>2,946,037</u>	<u>2,946,037</u>	<u>2,946,037</u>	<u>-0-</u>
Fund balance, ending	<u>\$ 3,044,332</u>	<u>\$ 3,128,422</u>	<u>\$ 3,265,379</u>	<u>\$ 136,957</u>

**TMRS SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
FOR THE LAST TEN YEARS (1)  
SEPTEMBER 30, 2017 WITH MEASUREMENT DATE OF DECEMBER 31, 2016**

	2017	2016	2015
Service cost	\$ 686,526	\$ 618,897	\$ 570,571
Interest (on the Total Pension Liability)	1,274,557	1,265,868	1,229,598
Difference between expected and actual experience	( 274,645)	( 320,136)	( 470,415)
Changes in assumptions		161,057	
Benefit payments, including refunds of employee contributions	( 1,173,072)	( 748,914)	( 922,660)
Net Change in Total Pension Liability	513,366	976,772	407,094
Total Pension Liability – Beginning	<u>19,125,603</u>	<u>18,148,831</u>	<u>17,741,737</u>
Total Pension Liability – Ending (a)	<u>\$ 19,638,969</u>	<u>\$ 19,125,603</u>	<u>\$ 18,148,831</u>
Contributions – Employer	\$ 409,449	\$ 420,803	\$ 424,399
Contributions – Employee	287,766	277,888	264,306
Net Investment Income	1,214,297	26,583	988,195
Benefit payments, including refunds of employee contributions	( 1,173,072)	( 748,914)	( 922,660)
Administrative expense	( 13,721)	( 16,194)	( 10,318)
Other	( 739)	( 800)	( 848)
Net Change in Plan Fiduciary Net Position	723,980	( 40,634)	743,074
Plan Fiduciary Net Position – Beginning	<u>17,977,538</u>	<u>18,018,172</u>	<u>17,275,098</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 18,701,518</u>	<u>\$ 17,977,538</u>	<u>\$ 18,018,172</u>
Net Pension Liability (a-b)	\$ 937,451	\$ 1,148,065	\$ 130,659
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	95.23%	94.00%	99.28%
Covered Employee Payroll	\$ 4,110,937	\$ 3,960,993	\$ 3,775,801
Net Pension Liability as a Percentage of Covered Employee Payroll	22.80%	28.98%	3.46%

Notes to Schedule:

- (1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.

**TMRS SCHEDULE OF CONTRIBUTIONS  
FOR THE LAST TEN YEARS (1)  
SEPTEMBER 30, 2017 WITH MEASUREMENT DATE OF DECEMBER 31, 2016**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 409,449	\$ 420,803	\$ 424,399
Contributions in relation to the actuarially determined contribution	<u>409,449</u>	<u>420,803</u>	<u>424,399</u>
Contribution deficiency (excess)	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
Covered-employee payroll	\$ <u>4,110,937</u>	\$ <u>3,960,993</u>	\$ <u>3,775,801</u>
Contributions as a percentage of covered-employee payroll	9.96%	10.62%	11.24%

**Notes to Schedule of Contributions**

**Valuation date**

Notes Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial cost method	Entry age normal
Amortization method	Level Percentage of Payroll, Closed
Remaining Amortization period	30 years
Asset valuation method	10 Year smoothed market, 15% soft corridor
Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Investment rate of return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 – 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generated basis with scale BB

**Other Information**

Notes There were no benefit changes during the year.

(1) The first TMRS actuarial report was completed for the year ended December 31, 2014 (measurement date), therefore, only three years of required supplemental information are available.

**TESRS SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
FOR THE LAST TEN YEARS (1)  
SEPTEMBER 30, 2017 WITH MEASUREMENT DATE OF DECEMBER 31, 2016**

	2017	2016	2015
Service cost	\$ 12,412	\$ 12,338	\$ 10,052
Interest (on the Total Pension Liability)	65,218	61,683	44,282
Changes in benefit terms	5,290		
Difference between expected and actual experience	474		
Changes in assumptions	6,520		
Benefit payments, including refunds of employee contributions	( 34,447 )	( 32,760 )	( 34,012 )
<b>Net Change in Total Pension Liability</b>	<b>55,467</b>	<b>41,261</b>	<b>20,322</b>
<b>Total Pension Liability – Beginning (2)</b>	<b><u>634,375</u></b>	<b><u>593,114</u></b>	<b><u>572,792</u></b>
<b>Total Pension Liability – Ending (a)</b>	<b><u>\$ 689,842</u></b>	<b><u>\$ 634,375</u></b>	<b><u>\$ 593,114</u></b>
Contributions by the City	\$ 25,375	\$ 25,600	\$ 24,900
Contributions by the State	11,604	11,923	9,121
Net Investment Income	36,314	( 23,979 )	65,495
Benefit payments, including refunds of employee contributions	( 34,447 )	( 32,760 )	( 34,012 )
Administrative expense	( 1,222 )	( 1,572 )	( 911 )
Other	9,121	9,121	( 9,121 )
<b>Net Change in Plan Fiduciary Net Position</b>	<b>46,745</b>	<b>( 11,667 )</b>	<b>55,472</b>
<b>Plan Fiduciary Net Position – Beginning</b>	<b><u>475,014</u></b>	<b><u>486,681</u></b>	<b><u>431,209</u></b>
<b>Plan Fiduciary Net Position – Ending (b)</b>	<b><u>\$ 521,759</u></b>	<b><u>\$ 475,014</u></b>	<b><u>\$ 486,681</u></b>
<b>Net Pension Liability (a-b)</b>	<b>\$ 168,083</b>	<b>\$ 159,361</b>	<b>\$ 106,433</b>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	<b>75.63%</b>	<b>74.88%</b>	<b>82.06%</b>
<b>Number of Active Members (3)</b>	<b>15</b>	<b>20</b>	<b>19</b>
<b>City's Net Pension Liability per Active Member</b>	<b><u>\$ 11,206</u></b>	<b><u>\$ 7,968</u></b>	<b><u>\$ 5,602</u></b>

**Notes to Schedule:**

- (1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.
- (2) There is no compensation for active members.
- (3) There is no compensation for active members, so number of active members is used instead.

TESRS SCHEDULE OF INVESTMENT RETURNS  
FOR THE LAST TEN YEARS (1)  
SEPTEMBER 30, 2017 WITH MEASUREMENT DATE OF AUGUST 31, 2016

<u>Fiscal Year Ending</u>	<u>Annual Money-Weighted Net Real Rate of Return (2)</u>
August 31, 2013	13.84%
August 31, 2014	14.92%
August 31, 2015	( 3.58% )
August 31, 2016	5.57%

Notes to Schedule:

- (1) This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, only available information is shown.
- (2) The money-weighted rate of return expresses investment performance, net of investment expenses, reflecting changing amounts actually invested during the year.

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## ***OTHER SCHEDULES***

**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
September 30, 2017

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Emergency Medical Service	Hotel- Motel Fund	Great Texas Mosquito Festival	Debt Service Fund	
<b>Assets and Deferred Outflows of Resources</b>					
<b>Assets:</b>					
Cash and temporary investments	\$ 62,000	\$ 1,172,776	\$ 145,980	\$ 37,811	\$ 1,418,567
<b>Receivables:</b>					
Ad valorem taxes (less allowance for uncollectibles - \$ 484)				2,951	2,951
Hotel/Motel taxes		203,811			203,811
Accounts	220,004				220,004
Due from other governments				89	89
<b>Total assets</b>	<b>282,004</b>	<b>1,376,587</b>	<b>145,980</b>	<b>40,851</b>	<b>1,845,422</b>
<b>Deferred Outflows of Resources:</b>					
Total deferred outflows of resources					-0-
<b>Total assets and deferred outflows of resources</b>	<b>\$ 282,004</b>	<b>\$ 1,376,587</b>	<b>\$ 145,980</b>	<b>\$ 40,851</b>	<b>\$ 1,845,422</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 17,867	\$ 56,258	\$	\$	\$ 74,125
Accrued wages and benefits payable	8,242	510			8,752
Due to other funds	209,166			89	209,255
<b>Total liabilities</b>	<b>235,275</b>	<b>56,768</b>	<b>-0-</b>	<b>89</b>	<b>292,132</b>
<b>Deferred Inflows of Resources:</b>					
Deferred inflows of resources				2,327	2,327
<b>Total deferred inflows of resources</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>2,327</b>	<b>2,327</b>
<b>Fund Balance:</b>					
<b>Restricted:</b>					
Economic development		1,319,819	145,980		1,465,799
Debt service				38,435	38,435
<b>Assigned:</b>					
Emergency medical service	46,729				46,729
<b>Total fund balances</b>	<b>46,729</b>	<b>1,319,819</b>	<b>145,980</b>	<b>38,435</b>	<b>1,550,963</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 282,004</b>	<b>\$ 1,376,587</b>	<b>\$ 145,980</b>	<b>\$ 40,851</b>	<b>\$ 1,845,422</b>

The notes to the financial statements are an integral part of this statement.

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended September 30, 2017

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Emergency Medical Service	Hotel- Motel Fund	Great Texas Mosquito Festival	Debt Service Fund	
Revenues:					
Property taxes	\$	\$	\$	\$ 168,596	\$ 168,596
Hotel/Motel taxes		822,620			822,620
Revenue producing facilities		1,300	157,949		159,249
EMS revenues	550,114				550,114
Investment income	194	3,971	546		4,711
Miscellaneous	<u>258,790</u>				<u>258,790</u>
Total revenues	<u>809,098</u>	<u>827,891</u>	<u>158,495</u>	<u>168,596</u>	<u>1,964,080</u>
Expenditures:					
Current:					
Public safety	1,216,426				1,216,426
Culture and Recreation		405,791	263,171		668,962
Capital outlay	144,567				144,567
Debt Service:					
Principal retirement				290,000	290,000
Interest and fiscal charges				<u>165,797</u>	<u>165,797</u>
Total expenditures	<u>1,360,993</u>	<u>405,791</u>	<u>263,171</u>	<u>455,797</u>	<u>2,485,752</u>
Excess of revenues over (under) expenditures	<u>( 551,895 )</u>	<u>422,100</u>	<u>( 104,676 )</u>	<u>( 287,201 )</u>	<u>( 521,672 )</u>
Other Financing Sources (Uses):					
Transfers in	506,697		125,000	313,023	944,720
Transfers out	<u>( 5,000 )</u>	<u>( 220,770 )</u>			<u>( 225,770 )</u>
Total other financing sources (uses)	<u>501,697</u>	<u>( 220,770 )</u>	<u>125,000</u>	<u>313,023</u>	<u>718,950</u>
Change in fund balances	<u>( 50,198 )</u>	<u>201,330</u>	<u>20,324</u>	<u>25,822</u>	<u>197,278</u>
Fund balance - beginning	<u>96,927</u>	<u>1,118,489</u>	<u>125,656</u>	<u>12,613</u>	<u>1,353,685</u>
Fund balance - ending	<u>\$ 46,729</u>	<u>\$ 1,319,819</u>	<u>\$ 145,980</u>	<u>\$ 38,435</u>	<u>\$ 1,550,963</u>

The notes to the financial statements are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
SPECIAL REVENUE FUND (EMERGENCY MEDICAL SERVICE)**

For the Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
EMS revenues	\$ 822,352	\$ 822,352	\$ 550,114	\$( 272,238)
Fines and fees	250	250		( 250)
Investment income	125	125	194	69
Miscellaneous	<u>260,200</u>	<u>260,200</u>	<u>258,790</u>	<u>( 1,410)</u>
Total revenues	<u>1,082,927</u>	<u>1,082,927</u>	<u>809,098</u>	<u>( 273,829)</u>
<b>Expenditures:</b>				
Current:				
Public safety	1,225,901	1,225,901	1,216,426	9,475
Capital outlay	<u>166,995</u>	<u>166,995</u>	<u>144,567</u>	<u>22,428</u>
Total expenditures	<u>1,392,896</u>	<u>1,392,896</u>	<u>1,360,993</u>	<u>31,903</u>
Excess (deficiency) of revenues over expenditures	<u>( 309,969)</u>	<u>( 309,969)</u>	<u>( 551,895)</u>	<u>( 241,926)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	332,597	418,274	506,697	88,423
Transfers out	<u>( 5,000)</u>	<u>( 5,000)</u>	<u>( 5,000)</u>	<u>-0-</u>
Total other financing sources (uses)	<u>327,597</u>	<u>413,274</u>	<u>501,697</u>	<u>88,423</u>
Change in fund balance	17,628	103,305	( 50,198)	( 153,503)
Fund balance, beginning	<u>96,927</u>	<u>96,927</u>	<u>96,927</u>	<u>-0-</u>
Fund balance, ending	<u>\$ 114,555</u>	<u>\$ 200,232</u>	<u>\$ 46,729</u>	<u>\$( 153,503)</u>

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - BUDGET AND ACTUAL  
SPECIAL REVENUE FUND (HOTEL-MOTEL)**

For the Year Ended September 30, 2017

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Hotel-Motel taxes	\$ 780,000	\$ 780,000	\$ 822,620	\$ 42,620
Revenue producing facilities	4,000	4,000	1,300	( 2,700 )
Investment income	<u>1,500</u>	<u>1,500</u>	<u>3,971</u>	<u>2,471</u>
Total revenues	<u>785,500</u>	<u>785,500</u>	<u>827,891</u>	<u>42,391</u>
Expenditures:				
Current:				
Culture and Recreation	<u>429,499</u>	<u>429,499</u>	<u>405,791</u>	<u>23,708</u>
Total expenditures	<u>429,499</u>	<u>429,499</u>	<u>405,791</u>	<u>23,708</u>
Excess of revenues over expenditures	<u>356,001</u>	<u>356,001</u>	<u>422,100</u>	<u>66,099</u>
Other Financing Sources (Uses):				
Transfers out	( <u>238,746</u> )	( <u>238,746</u> )	( <u>220,770</u> )	<u>17,976</u>
Total other financing sources (uses)	( <u>238,746</u> )	( <u>238,746</u> )	( <u>220,770</u> )	<u>17,976</u>
Change in fund balance	117,255	117,255	201,330	84,075
Fund balance, beginning	<u>1,118,489</u>	<u>1,118,489</u>	<u>1,118,489</u>	<u>-0-</u>
Fund balance, ending	\$ <u>1,235,744</u>	\$ <u>1,235,744</u>	\$ <u>1,319,819</u>	\$ <u>84,075</u>

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -  
SPECIAL REVENUE FUND (GREAT TEXAS MOSQUITO FESTIVAL)

For the Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue producing facilities	\$ 176,650	\$ 176,650	\$ 157,949	\$( 18,701)
Investment income	<u>250</u>	<u>250</u>	<u>546</u>	<u>296</u>
Total revenues	<u>176,900</u>	<u>176,900</u>	<u>158,495</u>	<u>( 18,405)</u>
Expenditures:				
Current:				
Culture and Recreation	<u>300,626</u>	<u>300,626</u>	<u>263,171</u>	<u>37,455</u>
Total expenditures	<u>300,626</u>	<u>300,626</u>	<u>263,171</u>	<u>37,455</u>
Excess (deficiency) of revenues over expenditures	<u>( 123,726)</u>	<u>( 123,726)</u>	<u>( 104,676)</u>	<u>19,050</u>
Other Financing Sources (Uses):				
Transfers in	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>	<u>-0-</u>
Total other financing sources (uses)	<u>125,000</u>	<u>125,000</u>	<u>125,000</u>	<u>-0-</u>
Change in fund balance	1,274	1,274	20,324	19,050
Fund balance, beginning	<u>125,656</u>	<u>125,656</u>	<u>125,656</u>	<u>-0-</u>
Fund balance, ending	<u>\$ 126,930</u>	<u>\$ 126,930</u>	<u>\$ 145,980</u>	<u>\$ 19,050</u>

STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -  
DEBT SERVICE FUND

For the Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Ad valorem taxes	\$ 171,035	\$ 171,035	\$ 168,596	\$( 2,439)
Investment income (loss)	1,500	1,500		( 1,500)
Total revenues	<u>172,535</u>	<u>172,535</u>	<u>168,596</u>	<u>( 3,939)</u>
Expenditures:				
Debt Service:				
Principal retirement	488,750	290,000	290,000	-0-
Interest and fiscal charges	<u>228,848</u>	<u>170,223</u>	<u>165,797</u>	<u>4,426</u>
Total expenditures	<u>717,598</u>	<u>460,223</u>	<u>455,797</u>	<u>4,426</u>
Excess (deficiency) of revenues over expenditures	( 545,063)	( 287,688)	( 287,201)	487
Other Financing Sources (Uses):				
Issuance of bonds	40,000			-0-
Transfers in	<u>701,773</u>	<u>313,023</u>	<u>313,023</u>	<u>-0-</u>
Total other financing sources (uses)	<u>741,773</u>	<u>313,023</u>	<u>313,023</u>	<u>-0-</u>
Change in fund balance	196,710	25,335	25,822	487
Fund balance, beginning	<u>12,613</u>	<u>12,613</u>	<u>12,613</u>	<u>-0-</u>
Fund balance, ending	<u>\$ 209,323</u>	<u>\$ 37,948</u>	<u>\$ 38,435</u>	<u>\$ 487</u>

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**CITY OF CLUTE**

Clute, Texas

**CONSOLIDATED SCHEDULE OF ASSETS, DEFERRED OUTFLOWS OF RESOURCES,  
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND  
FUND BALANCE - GENERAL FUND - SUB-FUNDS**

September 30, 2017

	<u>Operating</u>	<u>Chapter 380</u>	<u>Capital Improvement</u>
<b>ASSETS AND DEFERRED INFLOWS OF RESOURCES</b>			
Assets:			
Cash and temporary investments	\$ 1,338,774	\$	\$ 1,931,208
Investments	1,119,986		
Receivables:			
Ad valorem taxes (less allowance for uncollectibles - \$ 56,216)	69,964		
Sales tax	516,302		
Other taxes	58,389		
Customer accounts (less allowance for uncollectibles - \$ 456)	16,680		
Accrued interest	24,595		
Due from other governments	1,551		
Due from other funds	209,255		
Long-term notes receivable		4,200,320	
Intrafund – due from (to)	<u>459,804</u>	<u>( 2,159,804 )</u>	
Total assets	<u>3,815,300</u>	<u>2,040,516</u>	<u>1,931,208</u>
Deferred Outflows of Resources:			
Deferred outflows of resources			
Total deferred outflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total assets and deferred outflows of resources	<u>\$ 3,815,300</u>	<u>\$ 2,040,516</u>	<u>\$ 1,931,208</u>

<u>Unemployment Insurance</u>	<u>Beautification</u>	<u>Equipment Replacement</u>	<u>Forfeiture</u>	<u>Section 125 Plan</u>	<u>Total</u>
\$ 1,804	\$ 22,532	\$ 54,436	\$ 74,324	\$ 246,075	\$ 3,669,153
146,889		1,923,909			3,190,784
					69,964
					516,302
					58,389
					16,680
					24,595
					1,551
					209,255
					4,200,320
		<u>1,700,000</u>			<u>-0-</u>
<u>148,693</u>	<u>22,532</u>	<u>3,678,345</u>	<u>74,324</u>	<u>246,075</u>	<u>11,956,993</u>
					<u>-0-</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<u>\$ 148,693</u>	<u>\$ 22,532</u>	<u>\$ 3,678,345</u>	<u>\$ 74,324</u>	<u>\$ 246,075</u>	<u>\$ 11,956,993</u>

**CITY OF CLUTE**

Clute, Texas

**CONSOLIDATED SCHEDULE OF ASSETS, DEFERRED OUTFLOWS OF RESOURCES,  
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND  
FUND BALANCE - GENERAL FUND - SUB-FUNDS**

September 30, 2017

	<u>Operating</u>	<u>Chapter 380</u>	<u>Capital Improvement</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>			
Liabilities:			
Accounts payable	\$ 326,497	\$ 90,516	\$ 407,142
Accrued wages and benefits payable	40,461		
Due to other funds		1,950,000	
Unearned revenue	<u>30,439</u>	<u>          </u>	<u>          </u>
Total liabilities	<u>397,397</u>	<u>2,040,516</u>	<u>407,142</u>
Deferred Inflows of Resources:			
Deferred inflows of resources – property taxes	<u>63,009</u>	<u>          </u>	<u>          </u>
Total deferred inflows of resources	<u>63,009</u>	<u>-0-</u>	<u>-0-</u>
Fund Balances:			
Non-Spendable:			
Long-term note receivable		4,200,320	
Restricted:			
Municipal court security	25,718		
Municipal court technology	104,036		
Judicial efficiency	2,998		
Assigned:			
Capital improvement			1,524,066
Equipment replacement			
Police department			
Chapter 380 agreement	369,907		
Unassigned	<u>2,852,235</u>	<u>( 4,200,320 )</u>	<u>          </u>
Total fund balances	<u>3,354,894</u>	<u>-0-</u>	<u>1,524,066</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,815,300</u>	<u>\$ 2,040,516</u>	<u>\$ 1,931,208</u>

<u>Unemployment Insurance</u>	<u>Beautification</u>	<u>Equipment Replacement</u>	<u>Forfeiture</u>	<u>Section 125 Plan</u>	<u>Total</u>
\$ 4,378	\$	\$	\$	\$	\$ 828,533
					40,461
					1,950,000
			23,791		54,230
<u>4,378</u>	<u>-0-</u>	<u>-0-</u>	<u>23,791</u>	<u>-0-</u>	<u>2,873,224</u>
					63,009
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>63,009</u>
					4,200,320
					25,718
					104,036
					2,998
					1,524,066
		2,593,182			2,593,182
			50,533		50,533
					369,907
<u>144,315</u>	<u>22,532</u>	<u>1,085,163</u>		<u>246,075</u>	<u>150,000</u>
<u>144,315</u>	<u>22,532</u>	<u>3,678,345</u>	<u>50,533</u>	<u>246,075</u>	<u>9,020,760</u>
<u>\$ 148,693</u>	<u>\$ 22,532</u>	<u>\$ 3,678,345</u>	<u>\$ 74,324</u>	<u>\$ 246,075</u>	<u>\$ 11,956,993</u>

**CITY OF CLUTE**

Clute, Texas

**CONSOLIDATED SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GENERAL FUND - SUB-FUNDS**

For the Year Ended September 30, 2017

	<u>Operating</u>	<u>Chapter 380</u>	<u>Capital Improvement</u>
Revenues:			
Ad valorem taxes	\$ 2,657,508	\$	\$
Sales tax	1,172,145		
Other taxes	614,834		
Industrial district	1,499,898		
Intergovernmental revenues	11,990		
Revenue producing facilities	1,578,936		
Fines and fees	500,990		
Licenses and fees	259,179		
Investment income	2,405		14,044
Miscellaneous	<u>109,530</u>		
Total revenues	<u>8,407,415</u>	<u>-0-</u>	<u>14,044</u>
Expenditures:			
Current:			
Administrative:			
Administration	336,700		
Legislative	242,374		
Legal	54,196		
Finance	121,197		
Public Safety:			
Municipal court	335,149		
Code enforcement	250,954		
Police	3,011,522		
Fire	182,555		
Sanitation	1,713,056		
Service center	340,444		
Streets and drainage	696,538		
Culture and Recreation:			
Library	119,099		
Parks and recreation	756,077		
Capital outlay			3,852,953
Debt Service:			
Principal retirement	286,338		
Interest and fiscal charges	<u>78,596</u>		
Total expenditures	<u>8,524,795</u>	<u>-0-</u>	<u>3,852,953</u>
Excess of revenues over (under) expenditures	<u>( 117,380 )</u>	<u>-0-</u>	<u>( 3,838,909 )</u>

<u>Unemployment Insurance</u>	<u>Beautification</u>	<u>Equipment Replacement</u>	<u>Forfeiture</u>	<u>Section 125 Plan</u>	<u>Total</u>
\$	\$	\$	\$	\$	\$
					2,657,508
					1,172,145
					614,834
					1,499,898
					11,990
					1,578,936
					500,990
					259,179
( 2,091 )	14	( 30,336 )	81	701	( 15,182 )
	<u>210</u>		<u>26,399</u>	<u>34,249</u>	<u>170,388</u>
<u>( 2,091 )</u>	<u>224</u>	<u>( 30,336 )</u>	<u>26,480</u>	<u>34,950</u>	<u>8,450,686</u>
				34,469	371,169
					242,374
					54,196
					121,197
					335,149
					250,954
			3,048		3,014,570
					182,555
					1,713,056
					340,444
					696,538
					119,099
					756,077
					3,852,953
					286,338
					<u>78,596</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>3,048</u>	<u>34,469</u>	<u>12,415,265</u>
<u>( 2,091 )</u>	<u>224</u>	<u>( 30,336 )</u>	<u>23,432</u>	<u>481</u>	<u>( 3,964,579 )</u>

**CITY OF CLUTE**

Clute, Texas

**CONSOLIDATED SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - GENERAL FUND - SUB-FUNDS**

For the Year Ended September 30, 2017

	<u>Operating</u>	<u>Chapter 380</u>	<u>Capital Improvement</u>
Other Financing Sources (Uses):			
Proceeds from sale of capital leases	\$ 11,098	\$	\$
Transfers in	579,843		1,000,000
Transfers out	( 500,414)		
Intrafund transfers in (out)	( 577,497)		700,000
Total other financing sources (uses)	( 486,970)	-0-	1,700,000
Change in fund balances	( 604,350)	-0-	( 2,138,909)
Fund balance, beginning	<u>3,959,244</u>		<u>3,662,975</u>
Fund balance, ending	<u>\$ 3,354,894</u>	<u>\$ -0-</u>	<u>\$ 1,524,066</u>

<u>Unemployment Insurance</u>	<u>Beautification</u>	<u>Equipment Replacement</u>	<u>Forfeiture</u>	<u>Section 125 Plan</u>	<u>Total</u>
\$	\$	\$	\$	\$	\$ 11,098
( 6,283)					1,579,843
( 13,503)	6,000	( 115,000)			( 506,697)
( 19,786)	6,000	( 115,000)	-0-	-0-	-0-
( 21,877)	6,224	( 145,336)	23,432	481	1,084,244
166,192	16,308	3,823,681	27,101	245,594	( 2,880,335)
<u>144,315</u>	<u>22,532</u>	<u>3,678,345</u>	<u>50,533</u>	<u>246,075</u>	<u>11,901,095</u>
\$ <u>144,315</u>	\$ <u>22,532</u>	\$ <u>3,678,345</u>	\$ <u>50,533</u>	\$ <u>246,075</u>	\$ <u>9,020,760</u>

CONSOLIDATED SCHEDULE OF NET POSITION  
ENTERPRISE FUND - SUB-FUNDS

September 30, 2017

	<u>Operating</u>	<u>Equipment Replacement</u>	<u>Unemployment Insurance</u>	<u>Construction</u>	<u>Total</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>					
<b>Assets:</b>					
Current Assets:					
Cash and temporary investments	\$ 333,923	\$ 444,939	\$ 80,724	\$ 605	\$ 860,191
Investments	4,556	1,062			5,618
Accounts receivable utilities (less allowance for uncollectibles - \$ 1,360)	285,028				285,028
Other receivables	132,346			139,476	271,822
Due from other funds	1,200,000				1,200,000
Prepaid items	298,355				298,355
Intra – due from (to)	<u>36,570</u>			<u>( 36,570)</u>	<u>-0-</u>
Total unrestricted current assets	<u>2,290,778</u>	<u>446,001</u>	<u>80,724</u>	<u>103,511</u>	<u>2,921,014</u>
Restricted Assets:					
Cash and temporary investments	<u>326,227</u>				<u>326,227</u>
Total restricted current assets	<u>326,227</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>326,227</u>
Total current assets	<u>2,617,005</u>	<u>446,001</u>	<u>80,724</u>	<u>103,511</u>	<u>3,247,241</u>
Noncurrent Assets:					
Capital Assets:					
Property, plant and equipment (less accumulated depreciation - \$ 12,215,166)	<u>13,870,608</u>			<u>7,099,596</u>	<u>20,970,204</u>
Total capital assets (net of accumulated depreciation)	<u>13,870,608</u>	<u>-0-</u>	<u>-0-</u>	<u>7,099,596</u>	<u>20,970,204</u>
Total assets	<u>16,487,613</u>	<u>446,001</u>	<u>80,724</u>	<u>7,203,107</u>	<u>24,217,445</u>
Deferred Outflows of Resources:					
Deferred outflows of resources	<u>139,918</u>				<u>139,918</u>
Total deferred outflows of resources	<u>139,918</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>139,918</u>
Total assets and deferred outflows of resources	<u>\$ 16,627,531</u>	<u>\$ 446,001</u>	<u>\$ 80,724</u>	<u>\$ 7,203,107</u>	<u>\$ 24,357,363</u>

CONSOLIDATED SCHEDULE OF NET POSITION  
ENTERPRISE FUND - SUB-FUNDS

September 30, 2017

	<u>Operating</u>	<u>Equipment Replacement</u>	<u>Unemployment Insurance</u>	<u>Construction</u>	<u>Total</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION					
Liabilities:					
Current Liabilities:					
Accounts payable	\$ 159,952	\$	\$	\$ 83,821	\$ 243,773
Accrued wages and benefits payable	2,819				2,819
Accrued compensated absences	1,511				1,511
Accrued interest payable	31,491				31,491
Bonds payable - current	386,163				386,163
Unearned revenue	18,334				18,334
Total current unrestricted liabilities	<u>600,270</u>	<u>-0-</u>	<u>-0-</u>	<u>83,821</u>	<u>684,091</u>
Current Liabilities Payable from Restricted Assets:					
Customer deposits payable	<u>326,227</u>				<u>326,227</u>
Total current restricted liabilities	<u>326,227</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>326,227</u>
Total current liabilities	<u>926,497</u>	<u>-0-</u>	<u>-0-</u>	<u>83,821</u>	<u>1,010,318</u>
Noncurrent Liabilities:					
Bonds payable - net	6,093,777				6,093,777
Pension liability - net	<u>66,083</u>				<u>66,083</u>
Total noncurrent liabilities	<u>6,159,860</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>6,159,860</u>
Total liabilities	<u>7,086,357</u>	<u>-0-</u>	<u>-0-</u>	<u>83,821</u>	<u>7,170,178</u>
Deferred Inflows of Resources:					
Deferred inflows of resources	<u>25,445</u>				<u>25,445</u>
Total deferred inflows of resources	<u>25,445</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>25,445</u>
Net Position:					
Net investment in capital assets	7,990,668			7,099,596	14,490,264
Unrestricted	<u>2,125,061</u>	<u>446,001</u>	<u>80,724</u>	<u>19,690</u>	<u>2,671,476</u>
Total net position	<u>9,515,729</u>	<u>446,001</u>	<u>80,724</u>	<u>7,119,286</u>	<u>17,161,740</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 16,627,531</u>	<u>\$ 446,001</u>	<u>\$ 80,724</u>	<u>\$ 7,203,107</u>	<u>\$ 24,357,363</u>

**CONSOLIDATED SCHEDULE OF REVENUES, EXPENSES, AND CHANGES  
IN NET POSITION - ENTERPRISE FUND - SUB-FUNDS**

For the Year Ended September 30, 2017

	<u>Operating</u>	<u>Equipment Replacement</u>	<u>Unemployment Insurance</u>	<u>Construction</u>	<u>Total</u>
Operating Revenues:					
Water service	\$ 2,165,434	\$	\$	\$	\$ 2,165,434
Sewer service	2,051,618				2,051,618
Tapping and reconnection fees	53,238				53,238
Penalties	57,603				57,603
Other governments	317,688				317,688
Operating lease income	135,592				135,592
Miscellaneous	6,212				6,212
Total operating revenues	<u>4,787,385</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>4,787,385</u>
Operating Expenses:					
Administrative	410,359				410,359
Sewer treatment	2,565,406				2,565,406
Operating expenses before depreciation	2,975,765	-0-	-0-	-0-	2,975,765
Depreciation	700,168			433,710	1,133,878
Total operating expenses	<u>3,675,933</u>	<u>-0-</u>	<u>-0-</u>	<u>433,710</u>	<u>4,109,643</u>
Net operating income	<u>1,111,452</u>	<u>-0-</u>	<u>-0-</u>	<u>( 433,710)</u>	<u>677,742</u>
Non-operating Revenues (Expenses):					
Interest revenue	4,792	2,077	554	4	7,427
Unrealized loss on investments	( 50)	( 12)			( 62)
Gain on sale of capital assets	2,268				2,268
Bond Interest and fees	( 266,488)				( 266,488)
Total non-operating revenues (expenses)	<u>( 259,478)</u>	<u>2,065</u>	<u>554</u>	<u>4</u>	<u>( 256,855)</u>
Net income (loss) before contributions and transfers	851,974	2,065	554	( 433,706)	420,887
Contributions				1,509,913	1,509,913
Transfers out	( 110,477)				( 110,477)
Change in net position	741,497	2,065	554	1,076,207	1,820,323
Net position, beginning	<u>8,774,232</u>	<u>443,936</u>	<u>80,170</u>	<u>6,043,079</u>	<u>15,341,417</u>
Net position, ending	<u>\$ 9,515,729</u>	<u>\$ 446,001</u>	<u>\$ 80,724</u>	<u>\$ 7,119,286</u>	<u>\$ 17,161,740</u>

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN NET POSITION - BUDGET AND ACTUAL – PROPRIETARY FUND (ENTERPRISE)**

For the Year Ended September 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Operating Revenues:				
Water service	\$ 2,060,862	\$ 2,060,862	\$ 2,165,434	\$ 104,572
Sewer service	1,993,151	1,993,151	2,051,618	58,467
Tapping and reconnection fees	51,450	51,450	53,238	1,788
Penalties	45,000	45,000	57,603	12,603
Other governments	259,378	259,378	317,688	58,310
Operating lease income	135,592	135,592	135,592	-0-
Miscellaneous	45,000	45,000	6,212	( 38,788 )
Total operating revenues	<u>4,590,433</u>	<u>4,590,433</u>	<u>4,787,385</u>	<u>196,952</u>
Operating Expenses:				
Administrative	430,251	430,251	410,359	19,892
Sewer treatment	<u>2,676,317</u>	<u>2,676,317</u>	<u>2,565,406</u>	<u>110,911</u>
Operating expenses before depreciation	3,106,568	3,106,568	2,975,765	130,803
Depreciation	<u>913,939</u>	<u>1,216,490</u>	<u>1,133,878</u>	<u>82,612</u>
Total operating expenses	<u>4,020,507</u>	<u>4,323,058</u>	<u>4,109,643</u>	<u>213,415</u>
Net operating income	<u>569,926</u>	<u>267,375</u>	<u>677,742</u>	<u>410,367</u>
Non-operating Revenues (Expenses):				
Interest revenue	3,750	3,750	7,427	3,677
Unrealized gain on investments	125	125	( 62 )	( 187 )
Gain on disposition of capital assets	1,500	1,500	2,268	768
Bond interest and fees	( 247,305 )	( 247,305 )	( 266,488 )	( 19,183 )
Total non-operating revenues (expenses)	<u>( 241,930 )</u>	<u>( 241,930 )</u>	<u>( 256,855 )</u>	<u>( 14,925 )</u>
Net income (loss) before contributions and transfers	327,996	25,445	420,887	395,442
Contributions	357,600	1,996,546	1,509,913	( 486,633 )
Transfers out	( 110,477 )	( 110,477 )	( 110,477 )	-0-
Change in net position	575,119	1,911,514	1,820,323	( 91,191 )
Net position, beginning (restated)	<u>15,341,417</u>	<u>15,341,417</u>	<u>15,341,417</u>	<u>-0-</u>
Net position, ending	<u>\$ 15,916,536</u>	<u>\$ 17,252,931</u>	<u>\$ 17,161,740</u>	<u>\$ ( 91,191 )</u>

**CITY OF CLUTE**

Clute, Texas

**SCHEDULE OF AD VALOREM TAX LEVIES AND COLLECTIONS**

For the Year Ended September 30, 2017

<u>Year of Tax Levy</u>	<u>Total Assessed Valuation</u>	<u>Tax Rate/\$100</u>	<u>Tax Levy</u>
2007 and Prior	\$ ---	\$ ---	\$ ---
2008	285,658,246	0.698	1,970,417
2009	288,722,917	0.693	1,940,218
2010	316,770,387	0.672	2,128,697
2011	281,276,339	0.672	1,890,177
2012	291,333,780	0.672	1,957,763
2013	284,839,881	0.672	1,914,124
2014	321,724,256	0.672	2,161,987
2015	361,224,279	0.659	2,380,468
2016	417,570,451	0.643	2,684,978

Taxes Receivable 10-01-16	Current Year Levy	Collections	Adjustments	Taxes Receivable 9-30-17
\$ 16,137	\$	\$ 200	\$( 3,583)	\$ 12,354
2,250		39		2,211
2,510				2,510
2,606		36		2,570
4,895		16		4,879
9,979		1,199		8,780
15,782		3,609		12,173
15,667		1,176	( 4,945)	9,546
34,458		15,744	( 1,269)	17,445
	<u>2,684,978</u>	<u>2,772,892</u>	<u>145,061</u>	<u>57,147</u>
<u>\$ 104,284</u>	<u>\$ 2,684,978</u>	<u>\$ 2,794,911</u>	<u>\$ 135,264</u>	<u>\$ 129,615</u>
Less: Reserve for Uncollectible Taxes				<u>56,700</u>
Net Delinquent Taxes Receivable				<u>\$ 72,915</u>

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## **COMPLIANCE AND INTERNAL CONTROL**

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# Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

**Lake Jackson Office:**  
8 West Way Court  
Lake Jackson, Texas 77566  
979-297-4075

**Angleton Office:**  
2801 N. Velasco Suite C  
Angleton, Texas 77515  
979-849-8297

**El Campo Office:**  
201 W. Webb  
El Campo, Texas 77437  
979-543-6836

**Houston Office:**  
10850 Richmond Ave., Ste 135  
Houston, Texas 77042  
281-974-3416

## Independent Auditor's Report

On Internal Control over Financial Reporting and on Compliance and Other Matters Based on  
an Audit of Financial Statements Performed in Accordance with *Government Auditing  
Standards*

To the Honorable Mayor and  
Members of City Council  
City of Clute  
Clute, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Clute (the "City"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 23, 2018.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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To the Honorable Mayor and  
Members of City Council  
City of Clute  
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### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kennemer, Masters & Hunsford, LLC*

Lake Jackson, Texas  
January 23, 2018

# Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS  
Limited Liability Company

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January 23, 2018

To the Members of Council  
of the City of Clute  
Clute, Texas

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Clute (the "City") for the year ended September 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 15, 2017. Professional standards also require that we communicate to you the following information related to our audit.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during September 30, 2017. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City's financial statements was:

Management's estimate of the useful lives of capital assets subject to depreciation is based on those within the same industry and their knowledge of the assets being depreciated. We evaluated key factors and assumptions used to develop useful lives of capital assets subject to depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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To the Members of Council  
of the City of Clute  
Clute, Texas  
January 23, 2018  
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#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

#### *Disagreements with Management*

For purposes of this letter, a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 23, 2018.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

#### Other Matters

We applied certain limited procedures to the Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget to Actual - General Fund, Streets, Drainage and Sidewalks Special Revenue Fund, and Economic Development Corporation Special Revenue Fund, the Texas Municipal Retirement System (TMRS) Schedule of Changes in Net Pension liability and Related Ratios for the Last Ten Years, TMRS Schedule of Contributions for the Last Ten Years



To the Members of Council  
of the City of Clute  
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January 23, 2018  
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the Texas Statewide Emergency Services Retirement System (TESRS) Schedule of Changes in Net Pension Liability and Related Ratios for the Last Ten Years, and the TESRS Schedule of Investment Returns for the Last Ten Years, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion to provide any assurance on the RSI.

We were engaged to report on the combining and individual fund statements and schedules, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

This information is intended solely for the use of the City Council and the management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

*Kennemer, Masters & Hunford, LLC*

